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84TH CONGRESS, 2d Session | SENATE | REPORT No. 1570

JOINT COMMITTEE ON CENTRAL INTELLIGENCE AGENCY

REPORT

OF THE

COMMITTEE ON RULES AND ADMINISTRATION

UNITED STATES SENATE

EIGHTY-FOURTH CONGRESS

SECOND SESSION

TO ACCOMPANY

S. Con. Res. 2

TOGETHER WITH THE

INDIVIDUAL VIEWS OF MR. HAYDEN

FEBRUARY 23 (legislative day, FEBRUARY 22), 1956.—Ordered to be printed

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JOINT COMMITTEE ON CENTRAL INTELLIGENCE AGENCY

FEBRUARY 23 (legislative day, FEBRUARY 22), 1956.—Ordered to be printed

Mr. GREEN, from the Committee on Rules and Administration, submitted the following

REPORT

together with the

INDIVIDUAL VIEWS OF MR. HAYDEN

[To accompany S. Con. Res. 2]

The Committee on Rules and Administration, to whom was referred the concurrent resolution (S. Con. Res. 2) to establish a Joint Committee on Central Intelligence, having considered same, report favorably thereon, with amendments, and recommend that the resolution, as amended, be adopted by the Senate.

EXPLANATION OF SENATE CONCURRENT RESOLUTION 2

This concurrent resolution, sponsored by 35 Senators, would establish a joint committee of Congress to have legislative oversight of the Central Intelligence Agency.

Such committee would be composed of six Members from the Senate, and six Members from the House of Representatives. Membership on the joint committee would be limited to Senators and Representatives already serving as members of Subcommittees on the Central Intelligence Agency of the Committees on Appropriations and Armed Services in both branches of Congress.

These Members would select their chairman and staff and have full cognizance and supervision over matters relating to the Central Intelligence Agency, with power to advise, inquire, and report. Staff and other committee expense for the first year was set at $250,000 by the Rules and Administration Committee.

AMENDMENTS

Amendments to Senate Concurrent Resolution 2 proposed by the Committee on Rules and Administration are as follows:

1. On page 3, line 21, strike the word "public";
2. On page 3, lines 23 to 25, inclusive, strike out the last sentence;
3. On page 4, line 6, after the word "Government", strike out the period and insert—

on a reimbursable basis with the prior consent of the heads of the departments or agencies concerned and the Committee on Rules and Administration.

4. On page 4, line 8, insert in the blank the figure "$250,000";
5. On page 4, line 8, after the word "paid", strike out "one-half";
6. On page 4, line 9, after the word "Senate", strike out "and one-half";
7. On page 4, strike out line 10;
8. On page 4, line 11, after the word "chairman.", strike out "Disbursements to";
9. On page 4, strike out lines 12, 13, 14, 15, and 16.

The effect of the first two amendments would be to bring reporting fees for both public and executive hearings of the joint committee into conformity with regulations now controlling reporting costs of Senate committees. The effect of the third amendment would insure that prior consent of the heads of the departments or agencies concerned, and of the Senate Committee on Rules and Administration, must be obtained for the joint committee to utilize the reimbursable services of agency personnel detailed to it. The fourth amendment would limit the joint committee's expenditures for staff and other expenses during its first year to $250,000. Amendments 5 to 9, inclusive, would provide that all the funds necessary to the operations of the joint committee be disbursed by the Senate without reimbursement from the House of Representatives. These amendments would thus eliminate duplication of accounts, prevent difficulties which might arise due to conflicts in some of the fiscal regulations governing the two Houses of Congress, and make the language of the present resolution conform to the current disbursement practices controlling practically all other joint congressional committees.

SUMMARY OF OBJECTIVES OF SENATE CONCURRENT RESOLUTION 2

A. This concurrent resolution, in creating a joint committee to oversee the Central Intelligence Agency, adopts the essence of a recommendation made to Congress by the Hoover Commission.

B. At the same time, it preserves the continuity of present congressional cognizance of CIA at committee level by limiting the membership on the joint committee to those Senators and Representatives now most privy to CIA's operations.

C. Approval of the resolution will give Congress a joint committee analogous to the Joint Committee on Atomic Energy, and like the latter, dedicated to the promotion of the public and legislative will in a sensitive agency imperative to our country's international survival.

D. It will also give Congress a specific group which can work hand in hand with a civilian group already appointed by the President to study intelligence activities, particularly the CIA. The civilian

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group referred to was appointed after its organization had been suggested by the Hoover Commission.

E. It will provide the Central Intelligence Agency with a congressional committee acting for it as a unit in Congress, and one capable of furnishing CIA protection against unwarranted attack or inquiry.

F. The establishment of a Joint Committee on Central Intelligence will insure the existence of a trained, specialized, and dedicated staff to gather information and make independent checks and appraisals of CIA activities pursuant to the committee's directives and supervision. The effect should be to allay much of the suspicion already expressed in Congress concerning the activities and efficiency of CIA operations.

Introduction

The requirement of a centralized, responsible intelligence organization which can act as the collator and prophet of international intentions hostile to the United States is an imperative one. It would be difficult to phrase a more apt expression of its significance than was contained in the Hoover Commission's Report on Intelligence Activities:

> The fate of the Nation well may rest on accurate and complete intelligence data which may serve as a trustworthy guide for top-level governmental decisions on policy and action in a troubled world, where so many forces and ideologies work at cross-purposes.

The Central Intelligence Agency was created to fill this need. Whether or not it has met that need has never been understood too clearly by the press or the public. Its very secrecy keeps its operations from justification or criticism. The suspicion grows, however, that some of its secrecy has been secrecy for its own sake. The efficiency of the CIA has been doubted, its results questioned.

Background of the Central Intelligence Agency

I. HISTORICAL

The concept of a centralized intelligence agency with unit responsibility evolved slowly. In World War I, the United States had no intelligence service equal to the name. Between World War I and World War II, the Nation relied chiefly on the military services and the State Department for its foreign strategic and tactical information. With the outbreak of World War II, the need for centralized intelligence information became even more apparent. As a step toward meeting that need, the Office of the Coordinator of Information was set up in 1941 to collect and analyze information data, military or otherwise, which might bear upon national defense strategy. Later, in June 1942, the Office of Strategic Services emerged as the organization charged with the compilation of secret war information for the Joint Chiefs of Staff.

This OSS organization remained intact until the close of World War II. In the fall of 1944, its Director was asked by the President to recommend the concept for a postwar intelligence organization. In substance, his recommendations were followed out when the President, in January 1946, created the National Intelligence Authority consisting of the Secretaries of State, War, and Navy, and

the President's personal representative to coordinate Federal foreign intelligence activities. A Central Intelligence Group was also organized by directive, with a Director designated by the President to assist the National Intelligence Authority and to be responsible to it. In the period of 6 years the CIA has been examined 4 times—twice by task forces of 2 Hoover Commissions. The substance of the findings over the spread of these years were generally the same—that inadequacies and poor organization existed and had gone uncorrected.

II. NATIONAL SECURITY ACT OF 1947

Both the Authority (NIA) and the Central Intelligence Group (CIG) vanished with the enactment of the National Security Act of 1947 (Public Law 253, 80th Cong., 61 Stat. 495; 50 U. S. C. Supp. 403) by which Congress established a National Security Council (NSC) and created under it a Central Intelligence Agency (CIA) with a Director at its head.

The purposes of the CIA were defined by the act as follows:

(d) For the purpose of coordinating the intelligence activities of the several Government departments and agencies in the interest of national security, it shall be the duty of the Agency, under the direction of the National Security Council—

(1) to advise the National Security Council in matters concerning such intelligence activities of the Government departments and agencies as relate to national security;

(2) to make recommendations to the National Security Council for the coordination of such intelligence activities of the departments and agencies of the Government as relate to the national security;

(3) to correlate and evaluate intelligence relating to the national security, and provide for the appropriate dissemination of such intelligence within the Government using where appropriate existing agencies and facilities: *Provided*, That the Agency shall have no police, subpena, law-enforcement powers, or internal-security functions: *Provided further*, That the departments and other agencies of the Government shall continue to collect, evaluate, correlate, and disseminate departmental intelligence: *And provided further*, That the Director of Central Intelligence shall be responsible for protecting intelligence sources and methods from unauthorized disclosure;

(4) to perform, for the benefit of the existing intelligence agencies, such additional services of common concern as the National Security Council determines can be more efficiently accomplished centrally;

(5) to perform such other functions and duties related to intelligence affecting the national security as the National Security Council may from time to time direct.

(e) To the extent recommended by the National Security Council and approved by the President, such intelligence of the departments and agencies of the Government, except as hereinafter provided, relating to the national security shall be open to the inspection of the Director of Central Intelligence, and such intelligence as relates to the national security and is possessed by such departments and other agencies of the Government, except as hereinafter provided, shall be made available to the Director of Central Intelligence for correlation, evaluation, and dissemination: *Provided, however*, That upon the written request of the Director of Central Intelligence, the Director of the Federal Bureau of Investigation shall make available to the Director of Central Intelligence such information for correlation, evaluation, and dissemination as may be essential to the national security.

The Central Intelligence Agency is headed by a Director and a Deputy Director, both of whom are appointed by the President, by and with the advice and consent of the Senate. The Director or the Deputy Director of Central Intelligence may be chosen from the commissioned officers of the armed services in an active or retired status, but at no time shall more than one of the two positions be

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occupied by such a commissioned officer. The Deputy Director of Central Intelligence shall act for, and exercise the powers of, the Director during his absence or disability.

The Director of Central Intelligence, in the performance of his responsibility, receives pertinent information from all branches of the Government engaged in the collection of intelligence, including the Atomic Energy Commission. He gives advice and recommendations to the National Security Council on such matters. The function of the National Security Council is to advise the President with respect to the integration of domestic, foreign, and military policies relating to the national security so as to enable the military services and the other departments and agencies of the Government to cooperate more effectively in matters involving the national security.

The report "Intelligence Activities" (a report to Congress from the Commission on Organization of the Executive Branch of the Government, Washington, D. C., June 1955) prepared by a task force under the chairmanship of Gen. Mark W. Clark, The Citadel, S. C., comments on the establishment of CIA as follows:

> The CIA well may attribute its existence to the surprise attack on Pearl Harbor and to the postwar investigation into the part intelligence or lack of intelligence played in the failure of our military forces to receive adequate and prompt warning of the impending Japanese attack.
>
> That investigation of events leading up to the "day of infamy" impressed upon Congress the fact that information necessary to anticipate the attack actually was available to the Government; but that there was no system in existence to assure that the information, properly evaluated, would be brought to the attention of the President and his chief advisers so that appropriate decisions could be made and timely instructions transmitted to the interested military commanders.
>
> It also demonstrated that in the prewar Government organization no single official was responsible for whatever failure of intelligence was involved; and the blame for the military surprise fell, justly or unjustly, on the military commanders present and immediately involved in the debacle.
>
> Therefore, in 1947, when legislation for a national intelligence organization was being considered, there was a widespread feeling among Members of the Congress that responsibility for the coordination of the production of national intelligence, as distinguished from departmental intelligence, and for its dissemination, must be centered at one point.
>
> Creation of the Central Intelligence Agency, with its Director charged with the coordination of the intelligence effort, was authorized to fill this need * * *.

III. THE CIA ACT OF 1949

The Central Intelligence Agency Act of 1949 (Public Law 110, 81st Cong., 1st sess., approved June 20, 1949; 63 Stat. 208) followed 2 years later to strengthen CIA administration. This act dealt with such matters as procurement, travel, allowances, and related expenses. It contained an alien-admission clause to aid the Nation's intelligence mission. The statute further gave protection to the confidential nature of the Agency's functions, and allowed special instruction of Agency personnel. Among other provisions were these:

> SEC. 7. In the interests of the security of foreign intelligence activities of the United States and in order further to implement the proviso of section 102 (d) (3) of the National Security Act of 1947 (Public Law 253, Eightieth Congress, first session) that the Director of Central Intelligence shall be responsible for protecting intelligence sources and methods from authorized disclosure, the Agency shall be exempted from the provisions of sections 1 and 2, chapter 795 of the Act of August 28, 1935 (49 Stat. 956, 957; 5 U. S. C. 654), and the provisions of any other law which requires the publication or disclosure of the organization, functions, names, official titles, salaries, or numbers of personnel employed by the Agency: *Provided*,

That in furtherance of this section, the Director of the Bureau of the Budget shall make no reports to the Congress in connection with the Agency under section 607, title VI, chapter 212 of the Act of June 30, 1945, as amended (5 U. S. C. 947 (b)).

* * * * * * * *

SEC. 10. * * *.

(b) The sums made available to the Agency may be expended without regard to the provisions of law and regulations relating to the expenditure of Government funds; and for objects of a confidential, extraordinary, or emergency nature, such expenditures to be accounted for solely on the certificate of the Director and every such certificate shall be deemed a sufficient voucher for the amount therein certified.

IV. OTHER PERTINENT LEGISLATION

Other acts applicable to the Central Intelligence Agency, since adopted, include:

Public Law 697 (81st Cong., 2d sess., approved August 16, 1950) relating to the compensation of certain professional and scientific positions in CIA; Public Law 53 (82d Cong., 1st sess., approved June 26, 1951) regarding employment of retired officers and warrant officers in CIA; Public Law 15 (83d Cong., 1st sess., approved April 4, 1953) providing for the appointment of a Deputy Director of CIA; and Public Law 161 (84th Cong., 1st sess., approved July 26, 1955) authorizing moneys for a CIA headquarters installation.

INVESTIGATIONS OF THE CIA

I. FOUR SURVEYS OF THE CIA

The CIA has been twice investigated, examined, and appraised by task forces of the Commission on Organization of the Executive Branch of the Government (the Hoover Commission), once in 1949 and again in 1955. The first Hoover Commission inquiry was completed in 1949 pursuant to Public Law 162, 80th Congress, 1st session, approved July 7, 1947. The second was finished in 1955 pursuant to Public Law 108, 83d Congress, 1st session, approved July 10, 1953. Both investigations covered CIA as part of the national intelligence function of the United States.

The CIA was surveyed for the White House by a group of four, under the chairmanship of Lt. Gen. James H. Doolittle, in 1954. A fourth investigation, by a special committee headed by Allen Dulles, its present Director, received press mention in 1951. Today, under a recent Executive order of the President, still another group, made up of private, public-spirited citizens, is also checking into CIA operations and results.

II. THE FIRST HOOVER COMMISSION REPORT (1949)

The first Hoover Commission survey of intelligence functions and of the Central Intelligence Agency, was made pursuant to Public Law 162 (80th Cong., approved July 7, 1947) and returned to Congress by the Hoover Commission in report form on February 15, 1949. This report attached appendix G as the findings of the F. Eberstadt Task Force. The Eberstadt Task Force gave passing mention to CIA, perhaps because of its general newness in the Government. It did, however, find:

The Central Intelligence Agency is sound in principle, but improvement is needed in practice. It is not now properly organized. A serious deficiency is

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the lack of an adequate top-level evaluation board or section, whose duties are confined solely to the evaluation of intelligence, with no responsibilities for general policy or administrative matters.

The Eberstadt Task Force recommended:

* * * That vigorous efforts be made to improve the internal structure of the Central Intelligence Agency and the quality of its product * * *; that there be established within the Agency at the top echelon an evaluation board or section composed of competent and experienced personnel who would have no administrative responsibilities, and whose duties would be confined solely to intelligence evaluation.

Six years later another task force (the Clark Task Force) was also recommending efforts to improve the internal structure of the CIA and the quality of its product.

III. THE SPECIAL COMMITTEE

On this special committee the New York Times Magazine of May 27, 1951, reported, as follows:

A special committee of three civilians of extensive wartime experience in intelligence—Allan W. Dulles, William H. Jackson, and Mathias F. Correa, which was appointed to study CIA operations, found much cause for dissatisfaction. Continued demands for improvement led to the appointment in 1950 of Lt. Gen. W. Bedell Smith as Director. * * *

IV. GENERAL DOOLITTLE'S GROUP

Another comparable board of consultants was also set up by the White House later on in 1954. Announced publicly for the first time on October 14, 1954, as a group charged with investigating the secret operations of the CIA, this was a board of four men headed by Lt. Gen. James H. Doolittle and included, in addition, William D. Franke, Assistant Secretary of the Navy; Morris Hadley, New York attorney; and William D. Pauley, former Ambassador to Brazil.

Publication of the activities of the Doolittle group occurred 3 days before the first meeting of the Clark Task Force group, already named by act of Congress to conduct a similar study. The Doolittle studies had, however, been under way for some time. This apparent duplication of effort led to the following comment in the New York Times of October 14, 1954:

There was some feeling among intelligence circles yesterday that the two investigations represented some duplication and overlapping, and that some friction had developed, or might develop. This was said to be partly because one investigation, that of General Clark, stemmed from legislative, or congressional, authorization, whereas the other—that of General Doolittle—represented the executive branch of Government.

In any case informed circles agreed that the investigations probably meant that both Congress and the executive department were determined to improve the Government's intelligence operations and evaluations.

Experts believe much progress has been made in the development of global intelligence services but some "leaks" and failures—some of which are inevitable in any intelligence service—and several recent events have caused some anxiety.

They include the arrest of Mr. [Joseph S.] Petersen, who handled what was known in World War II as "Magic"—the information gathered by breaking the codes of foreign nations; the defection to the Communists of Dr. Otto John, head of Western Germany's secret service; the earlier but possibly not related defections of the British diplomats, Guy F. DeMoney Burgess and Donald D. MacLean; the case of British atomic physicist Dr. Klaus Fuchs now in prison as a traitor; and the amazing network of intrigue, espionage, and counterespionage recently revealed in high places in the French Government.

Some experts believe that all these events are somehow interrelated. There have been, moreover, some sharp recent criticisms of overlapping, duplicating and uncoordinated activities of various United States sponsored intelligence agencies in Germany.

Seven days after the first public announcement of this Doolittle study, the White House issued a statement in which the CIA won an accolade from the Doolittle Board for doing a "creditable job." The Board, it was said, had been asked by the President to look into certain phases of the CIA. It denied that there was an overlap in the Clark Task Force report. Certain recommendations were made directly by the Board to the President without being made public, though General Doolittle, in a release said:

There are important areas in which the CIA organization, administration, and operations can and should be improved, The Agency is aware of these problems and, in many cases, steps are being taken toward their solution. * * *

Roughly 8 months later, the Clark Task Force was saying:

The task force is deeply concerned over the lack of adequate intelligence data from behind the Iron Curtain * * *. The task force feels that certain administrative flaws have developed in the CIA, which must be corrected * * *.

or, the same thing all over again.

V. THE SECOND HOOVER COMMISSION REPORT (1955)

The actual investigation into the intelligence activities of the Government, under the Hoover Commission, was performed by a task force chairmanned by Gen. Mark W. Clark. This task force was initially instructed by the Hoover Commission to study and make recommendations as to the structure and administration of the Central Intelligence Agency. Those instructions were later changed by the Commission to embrace studies of all intelligence operations of the Federal Government and recommendations for changes necessary to promote economy, efficiency, and approved services in this field.

The Clark Task Force found at least 12 major departments and agencies engaged in intelligence of one form or another. In addition, 10 or more agencies' activities were discovered that expend public funds directly or indirectly in behalf of the intelligence effort of the Government. In the descriptive words of the task force report:

The machinery for accomplishing our intelligence objectives, hereafter called the intelligence community when referred to as a whole, includes the Central Intelligence Agency, the National Security Council, the Federal Bureau of Investigation, and the intelligence sections of the Departments of State, of the Army, the Navy, and the Air Force, and of the Atomic Energy Commission. Some of these agencies approach or exceed the operations of the CIA in functions and in expenditures. However, since CIA is charged with the overall responsibility for coordinating the output of all intelligence forces, the task force gave special attention to the work of that Agency.

It is noteworthy that a review which was broadened from a study of the Central Intelligence Agency to all intelligence agencies of the Government ended finally by making its most cogent and critical remarks about the CIA.

A. THE CLARK TASK FORCE REPORT

The Clark Task Force report was submitted in two parts. One was public; the other, being related to the national security, bore the highest security classification. The latter report was sent directly to

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the President and was not considered by the Commission because of its extremely sensitive content.

An extract from the unclassified Clark report says:

> Recommendations covering overseas counterintelligence operations, carried out by the military services and the Central Intelligence Agency, are contained in our classified report.

From this it is apparent that many pertinent facts about CIA's overseas functionings were lost to the comment of the full Hoover Commission. More importantly, it would appear this was also true of the task force findings on overall CIA organization. A recommendation to the Commission by the task force that the CIA be reorganized internally carries this footnote:

> Details and supporting factual matter relating to this recommendation are contained in the separate classified report of the task force. They cannot be incorporated in this report for security reasons.

The unclassified report of the Clark Task Force was published in the Commission's report to Congress. It makes pertinent recommendations about CIA that may be discussed and considered.

1. Recommendations

The Clark Task Force made nine principal recommendations. Succinctly stated, they are as follows:

1. That the Central Intelligence Agency be reorganized internally to produce greater emphasis on certain of its basic statutory functions, and that the Director of CIA employ an executive officer or "chief of staff" of that Agency.

2. That a small, permanent, bipartisan commission, composed of Members of both Houses of the Congress and other public-spirited citizens commanding the utmost national respect and confidence, be established by act of Congress to make periodic surveys of the organization, functions, policies, and results of the Government agencies handling foreign intelligence operations; and to report, under adequate security safeguards, its findings and recommendations to the Congress, and to the President, annually and at such other times as may be necessary or advisable. This "watchdog" commission would be empowered by law to demand and receive all information needed for its use and would be patterned after the Hoover Commission.

3. That increases be made in the salaries of the Director and other key employees of CIA, and that additional medical, hospital, and statutory leave benefits be accorded CIA employees on overseas duty.

4. That the CIA be authorized to employ other retired military personnel without regard to the laws limiting their compensation.

5. That all intelligence agencies recheck the security status of all personnel at intervals not to exceed 5 years.

6. That responsibility for procurement of foreign publications and for scientific intelligence be transferred from the State Department to CIA.

7. That Congress appropriate funds for adequate CIA headquarters in or near Washington, D. C.

8. That methods for selection of the coordinating committee members on atomic energy intelligence be made highly selective.

9. That a comprehensive coordinated program be developed to expand linguistic training in the overall intelligence effort.

2. Comments

The Clark task force made many comments in addition to its recommendations. Some of these are grouped under topical headings below:

(*a*) *Soviet bloc.*—

The task force is deeply concerned over the lack of adequate intelligence from behind the Iron Curtain. Proper directional emphasis, aggressive leadership, boldness and persistence are essential to achieve desired results. [Emphasis supplied.]

* * * * * * *

The aggressiveness of the Soviet bloc, their methods of infiltration, subversive activities and propaganda employed in the cold war now in progress, as well as the difficulty of penetration of their security barriers, point up the fact that our intelligence effort must be the best in our history. This, added to the advent of nuclear weapons, together with their advanced delivery system, has made adequate and timely intelligence imperative to our national security.

* * * * * * *

Security measures adopted by the Communists have been provokingly conceived and boldly employed. *They have been quite effective in comparison with our security measures, which have permitted the collection of vital secrets in this country with relative ease.* The information we need, particularly for our Armed Forces, is potentially available. Through concentration on the prime target we must exert every conceivable and practicable effort to get it. * * * [Emphasis supplied.]

* * * * * * *

The major aim would be greater concentration on the collection of intelligence information from our primary target—Russia and her satellites, and Communist China.

One inference from the last statement is that this Nation holds more intelligence on its friends (and neutrals) than on the Soviet and Chinese bloc.

(*b*) *Allen Dulles.*—Although the Clark Task Force found the Director of CIA to be "industrious, objective, selfless, enthusiastic, and imaginative," suggestion was observed that he and others were now too much concerned about the operational side of CIA's activities:

We are convinced, however, that in his enthusiasm he has taken upon himself too many burdensome duties and responsibilities on the operational side of CIA's activities * * *.

(*c*) *Administrative flaws.*—The task force found that the legislative and organizational setup of the intelligence family was soundly conceived, but had administrative flaws.

* * * The task force feels that certain administrative flaws have developed in the CIA, which must be corrected to give proper emphasis and direction to its basic responsibilities.

* * * * * * *

Failure to produce certain elements of intelligence has been due in part to the restrictive effects of some of our national attitudes and policies toward the collection of intelligence so necessary for effective resistance to Soviet aggression. Also, among some of those responsible for implementation of our foreign policy by diplomacy and negotiation, there seems to exist an abhorrence to anything that might lead to diplomatic or even protocol complications.

* * * * * * *

The glamor and excitement of some angles of our intelligence effort must not be permitted to overshadow other vital phases of the work or to cause neglect of primary functions. A majority of the task force is convinced that an internal reorganization of the Central Intelligence Agency is necessary to give assurance that each of these functions gets adequate attention without diversionary interest.

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(*d*) *Public relations.*—

The task force feels that the American people can and should give their full confidence and support to the intelligence program, and contribute in every possible way to the vital work in which these agencies are engaged.

* * * * * * *

One of the aims [should be] the creation of a compact commission * * * to keep the public assured of the essential and trustworthy accomplishments of our intelligence forces, and to enlist public support and participation in the intelligence effort.

* * * * * * *

Action of this sort is needed to promote a general awareness and appreciation among the people of the significance and objectives of the intelligence program. *There is a corollary demand* for clarification of misunderstandings which have arisen in the public mind, largely as a result of the misapplication of secrecy. [Emphasis supplied.]

(*e*) *Congressional affairs.*—

The task force further is concerned over the absence of satisfactory machinery for surveillance of the stewardship of the CIA. It is making recommendations which it believes will provide the proper type of "watchdog" commission as a means of reestablishing that relationship between the CIA and the Congress so essential to and characteristic of our democratic form of government, *but which was abrogated by the enactment of Public Law 110 and other statutes relating to the agency.* It would include representatives of both Houses of Congress and of the Chief Executive. Its duties would embrace a review of the operations and effectiveness, not only of the CIA, but also of all other intelligence agencies. [Emphasis supplied.]

The task force report adds:

The task force fully realizes that the Central Intelligence Agency, as a major fountain of intelligence for the Nation, must of necessity operate in an atmosphere of secrecy and with an unusual amount of freedom and independence. Obviously, it cannot achieve its full purpose if subjected to open scrutiny and the extensive checks and balances which apply to the average governmental agency.

Because of its peculiar position, the CIA has been freed by the Congress from outside surveillance of its operations and its fiscal accounts. There is always a danger that such freedom from restraints could inspire laxity and abuses which might prove costly to the American people.

Although the *task force* has discovered no indication of abuse of powers by the CIA or other Intelligence agencies, it nevertheless *is firmly convinced, as a matter of future insurance, that some reliable, systematic review of all the agencies and their operations should be provided by congressional action as a checkrein to assure both the Congress and the people that this hub of the Intelligence effort is functioning in an efficient, effective, and reasonably economical manner.* [Emphasis supplied.]

Within the Armed Services Committee, there is a liaison channel between the Congress and CIA which serves a worthy purpose, but which cannot include private citizens in its membership and has not attempted to encompass the wide scope of service and continuity which this task force considers essential for "watchdog" purposes.

The task force recognizes that secrecy is necessary for proper operation of our foreign intelligence activities but is concerned over the possibility of the growth of license and abuses of power where disclosure of costs, organization, personnel, and functions are precluded by law.

On the other hand, sporadic investigations in this field might inadvertently result in unauthorized disclosure of classified information to the detriment of the intelligence effort. Periodic audits or studies by some qualified, impartial agency would remove both of these dangers and would also allay any suspicions and distrust which have developed in the public mind by the complete secrecy of these operations. Such a procedure also might serve to shield our intelligence program from unjustifiable attacks upon the agencies concerned, and enhance public confidence and support of this vital work.

The Central Intelligence Agency Act of 1949 legalized the administrative procedures for the Agency. It was passed by the Congress on the unanimous recommendation of the Armed Services Committee.

(f) Agency enjoys wide exemptions.—

The act exempts the Agency from compliance with any provision of law limiting transfers of appropriations; any requirements for publication or disclosure of the organization, functions, names, official titles, salaries, or numbers of personnel employed by the Agency; and any regulations relating to the expenditure of Government funds.

The widespread conviction among Members of Congress that this situation should be corrected is indicated by the fact that more than a score of resolutions have been introduced in the current session calling for a review or watch over our intelligence activities, usually by a large joint committee of the two Houses.

3. Permanent "watchdog" commission

The report indicated that the task force considered a small, permanent commission modeled on the Hoover Commission as the best group for "watchdog" purposes. (As will be seen, this mixed commission of private citizens and Members of Congress was not concurred in by the Hoover Commission.) In furtherance of its premise, however, the task force was of the opinion that this mixed commission should, inter alia:

(1) Conduct comprehensive studies of foreign intelligence activities of the United States;

(2) Look for overlapping and duplication;

(3) Determine whether expenditures are within budget authorizations and in keeping with the expressed intent of the Congress;

(4) Consider whether any of the activities are in conflict with the foreign policy aims and program of the United States; and

(5) Employ a small permanent staff with power to inquire and examine.

This mixed commission would also stand in close relation to the foreign intelligence agencies of the Government and support their needs legislatively. Presumably, it would act in lieu of a congressional committee assigned to those and other tasks, though the report is silent on that point. An integral part of its duties would be reports of its findings and its recommendations to the President and to the Congress annually, and at such other times as might be appropriate or necessary.

B. THE RECOMMENDATION OF THE HOOVER COMMISSION

The report of the Hoover Commission on intelligence activities was transmitted to Congress on June 29, 1955. It was divided into two parts. Part II was the complete, unclassified report made by the Clark task force. The one recommendation made by the overall Hoover Commission was set forth in part I, which was limited to two pages. That recommendation, in two specific parts, was as follows:

Recommendation

(a) That the President appoint a committee of experienced private citizens, who shall have the responsibility to examine and report to him periodically on the work of Government foreign intelligence activities. This committee should also give such information to the public as the President may direct. The Commission should function on a part-time and per diem basis.

(b) That the Congress consider creating a joint congressional committee on foreign intelligence, similar to the Joint Committee on Atomic Energy. In such case, the two committees, one Presidential and the other congressional, could collaborate on matters of special importance to the national security.

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The "first" recommendation did not carry out wholly the task force recommendation for a "watchdog" commission. The Hoover Commission comment on this was specifically to the point that—

> while mixed congressional and citizens' committees for temporary service are useful and helpful to undertake specific problems and to investigate and make recommendations, such committees, if permanent, present difficulties.

The "second" recommendation of the Hoover Commission, concerning a joint committee on foreign intelligence, was wholly new and arrived at independently by the Commission after a survey of the task force findings. Its mention of the current Joint Committee on Atomic Energy is especially germane.

President's Board of Consultants on Foreign Intelligence Activities

I. ORIGIN OF BOARD

This Board was named at the White House, on January 13, 1956, pursuant to the above recommendation of the Commission on Organization of the Executive Branch of the Government (Hoover Commission), and after consultation with the Director of Central Intelligence. Although it is slated to look into the administration of all Government foreign intelligence activities, the Board's chief concern will be with the CIA. The eight-man board was named under the authority of Executive Order 10656, title 3, dated February 8, 1956.

II. COMPOSITION OF BOARD

The Board is comprised of the following members:

Dr. James R. Killian, Jr. (chairman), president, Massachusetts Institute of Technology;
Adm. Richard L. Conolly, retired, president, Long Island University;
Lt. Gen. James H. Doolittle, Air Force in Far East, in World War II;
Benjamin F. Fairless, director and member of finance committee, United States Steel Corp.;
Gen. John E. Hull, retired, former commander Air Force in Far East, and now president, Manufacturing Chemists Association;
Joseph P. Kennedy, former Ambassador to Great Britain;
Robert A. Lovett, former Secretary of Defense and Under Secretary of State;
Edward L. Ryerson, chairman of executive committee, Inland Steel Corp.

III. EXECUTIVE ORDER 10656

The Executive Order 10656, which established the President's Board of Consultants on Foreign Intelligence Activities, was issued by the President on February 6, 1956, and reads as follows:

> By virtue of the authority vested in me as President of the United States, and in order to enhance the security of the United States and the conduct of its foreign affairs by furthering the availability of intelligence of the highest order, it is ordered as follows:
>
> SECTION 1. There is hereby established the President's Board of Consultants on Foreign Intelligence Activities, hereinafter referred to as the President's Board. The members of the President's Board shall be appointed by the President from among persons outside the Government and on the basis of ability, experience, and knowledge of matters relating to the national defense and security, and shall

serve without compensation, but may receive transportation and per-diem allowances as authorized by law for persons serving without compensation.

SEC. 2. The President's Board shall conduct an objective review of the foreign intelligence activities of the Government and of the performance of the functions of the Central Intelligence Agency and shall report its findings to the President semi-annually or at more frequent intervals as the President's Board may deem appropriate. Such reports shall embrace the quality of the foreign intelligence provided to the Executive Branch of the Government, the performance by the Central Intelligence Agency of its functions, the performance of their respective intelligence functions by the principal intelligence elements of executive departments and other agencies, and any other related foreign intelligence matter which the President's Board deems appropriate.

SEC. 3. The members of the President's Board, individually and sitting as the President's Board, shall consult from time to time with the Director of Central Intelligence concerning the activities of the Central Intelligence Agency and with intelligence elements of other departments and agencies. The Director of Central Intelligence and the intelligence elements concerned are authorized to make available to the President's Board or to its individual members any information concerning foreign intelligence activities relating to the national interest which the President's Board or its members may require to fulfill their responsibilities to the President under this order.

SEC. 4. Each member of the President's Board shall execute an undertaking not to reveal any classified information obtained by virtue of his service on the President's Board except to the President or to such persons as the President may designate.

SEC. 5. The transportation and per-diem allowances referred to in section 1 of this order, and any other expenditures arising in connection with the activities of the President's Board, shall be paid from the appropriation appearing under the heading "Special Projects" in Title I of the General Government Matters Appropriation Act, 1956 (Public Law 110, approved June 29, 1955), without regard to the provisions of section 3681 of the Revised Statutes and section 9 of the Act of March 4, 1909, 35 Stat. 1027 (31 U. S. C. 672 and 673).

SEC. 6. This order shall be effective as of January 13, 1956.

DWIGHT D. EISENHOWER.

THE WHITE HOUSE,
February 6, 1956.

(21 Fed. Reg. 26, p. 859)

IV. WHITE HOUSE COMMENTS

According to the White House press release covering the Board's selection, the President, in his message to the members, commented as follows:

While the review by your group would be concerned with all Government foreign intelligence activities, I would expect particular detailed attention to be concentrated on the work of the Central Intelligence Agency and of those intelligence elements of key importance in other departments and agencies. I am particularly anxious to obtain your views as to the overall progress that is being made, the quality of training and personnel, security, progress in research, effectiveness of specific projects and of the handling of funds, and general competence in carrying out assigned intelligence tasks.

A letter then addressed by the President to the Director of Central Intelligence, after noting the Director's concurrence in the appointment of the Board, contained the following expression of the Board's contemplated scope:

While the review would concern itself with the sum total of these activities [foreign intelligence activities] it would be expected that major attention would be concentrated upon the work of the Central Intelligence Agency.

The letter continued:

The work of this Board together with the regular reviews conducted by the appropriate committees of the Congress will help to provide a method for assuring the Congress, the public, and the executive branch that this highly important and sensitive work is being efficiently conducted.

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V. WHY THE BOARD, BY ITSELF, IS NOT ENOUGH

From the foregoing, several conclusions can be drawn in assessing the likely merit of the Presidential Board:

1. The Board will report its findings directly to the President. No provision is made to require the Board to maintain congressional liaison. This notwithstanding the fact that many of the findings which the President appears anxious to obtain, for example, those relating to the "handling of funds" and "general competence," fall squarely within the legislative cognizance.

2. The Board functions essentially on a schedule of semiannual meetings and operates on a per diem and travel allowance basis. There is no provision for a continuous staff, as envisioned by the Clark Task Force, capable of conducting comprehensive surveys. The Board is a part-time operation.

3. The Board will report its information, good or bad, to the President, thus strengthening the already tight control of the Executive over CIA. This, of course, would be the ultimate result only in the absence of a joint congressional committee such as is proposed in Senate Concurrent Resolution 2. The President, by creating the new Board, has given effect to the first phase of the Hoover Commission's recommendation. The second and equally imperative phase of that recommendation falls within the responsibility of Congress. That the Hoover Commission contemplated its recommendation be considered in pari materia is obvious from the language of the recommendation itself:

> In such case, the two committees, one presidential and the other congressional could collaborate on matters of special importance to the national security.

Adoption of Senate Concurrent Resolution 2 would implement the Hoover Commission's "second" recommendation relating to the creation of a Joint Committee on Intelligence. It would complement the Executive Board, already appointed by the President, in conformity with the "first" recommendation of the Hoover Commission.

SELECTED COMMENTS ON THE ESTABLISHMENT OF A CONGRESSIONAL COMMITTEE TO EXERCISE LEGISLATIVE SURVEILLANCE OVER CIA

I. BY THE DIRECTOR OF CIA

By Allen W. Dulles, Director of Central Intelligence, as extracted from a feature article entitled "We Tell Russia Too Much", which appeared in the March 19, 1954, issue of United States News and World Report (at p. 67):

> Question. Has it ever been published how much appropriations you have?
>
> Answer. No, but I have seen some speculation in the press with figures which were several times exaggerated.
>
> Question. What committees of Congress do you have to deal with regularly?
>
> Answer. We deal with the Armed Services Committees of the Senate and the House, and we deal with both Appropriations Committees. Also we make periodic reports to the Joint Committee on Atomic Energy.
>
> Question. Don't they show in the budget some lump sum that you use?
>
> Answer. No.
>
> Question. Don't you have to appear before committees in executive session and explain your operations?
>
> Answer. I appear before a subcommittee of the Appropriations Committee and talk with them and give them a picture of the nature of the work we are doing, tell about our personnel, and where the money goes.

Question. So that there is a check on the Agency——

Answer. Oh, yes, and not only by Congress. We work closely with the Bureau of the Budget and operate within policies established by the National Security Council. We consult on an almost daily basis with other agencies of the Government, particularly the State and Defense Departments. Further, we make periodic reports on our activities to the National Security Council, and I see that the President is kept informed of all important developments. CIA is not a policy-making agency; we furnish intelligence to assist in the formulation of policy.

Question. What can you tell us about the rumors that CIA is to be investigated by committees of Congress?

Answer. I have no way to judge about that, and, as I just mentioned, we are already in close touch with the Armed Services and Appropriations Committees. I would like to say this about investigations. Any investigation, whether by a congressional committee or any other body, which results in a disclosure of our secret activities and operations or uncovers our personnel would help a potential enemy just as if the enemy were able to infiltrate their agents right into our shop.

If it were necessary to go into the details of operations before any committees anywhere—the security of your operations would quickly be broken. You couldn't run an intelligence agency on that basis. No intelligence agency in the world is run on that basis.

In intelligence you have to take certain things on faith. You have to look to the man who is directing the organization and the result he achieves. If you haven't someone who can be trusted, or who doesn't get results, you'd better throw him out and get somebody else.

Question. I understand a bill has been introduced into Congress to set up a joint congressional committee on intelligence which would do in the intelligence field what the Joint Committee on Atomic Energy does in the atomic field. Can you tell us anything about this?

Answer. I have studied these bills. They have been put in, I believe, by good friends of the Agency who are interested in finding a way to reconcile the exercise of congressional authority with the special need for security in an operation like that of CIA.

However, I don't know whether it would add anything very much to the present system of congressional control exercised through the Armed Services and Appropriations Committees. I naturally wish to respect the prerogatives of Congress and recognize that their confidence is essential if the Agency is to receive appropriations necessary to carry on its work efficiently.

Certainly I shall cooperate with the Congress in every way compatible with the need for security. When the 80th Congress set up the CIA they recognized this problem and wrote into the law that as Director I should be responsible for protecting intelligence sources and methods from unauthorized disclosure. Any disclosure which leads to publicity and gets information into the hands of potential enemies would to my mind be "unauthorized."

Question. How do you get around the fact that the Accounting Office must have a list of your employees and vouchers of the money you have spent?

Answer That is not the case. That is not required of our Agency. We couldn't operate with security if it were.

Question. So that it wouldn't be possible for a foreign government to get a list of your employees and their salaries——

Answer. No, by golly. It would be highly dangerous if they could.

Again quoting Mr. Dulles from a letter addressed by him to the Senate Committee on Rules and Administration, on April 30, 1954, in regard to Senate Concurrent Resolution 69 of the 83d Congress, a resolution similar to the measure discussed in this report:

In considering any proposal such as Senate Concurrent Resolution 69, due emphasis must be given to security factors. To obtain the cooperation of all those individuals and organizations whose assistance is essential to the proper performance of our duties, we must be in a position to assure them that the confidence inherent in their relationship with us is protected by every precaution and is known to the absolute minimum of those responsible persons who must have knowledge thereof. In addition, persons informed on United States intelligence activities are potential targets of hostile operations. Consequently, the security conditions under which any joint committee must necessarily operate cannot be overstressed.

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The parenthetical observation can be made here that neither can the security conditions under which the Joint Committee on Atomic Energy must necessarily operate be overstressed. Yet that joint committee has operated successfully for years.

II. EDITORIAL COMMENT

Two samplings of editorial comment from the public press are especially cogent.

From the New York Times of January 26, 1956:

"WATCHDOG" FOR CIA

Creation by President Eisenhower of a so-called "watchdog" board of citizens to review the Government's foreign intelligence activities, particularly those of the Central Intelligence Agency, does carry out to the letter one recommendation made by the Hoover Commission last spring. But we doubt that such a committee—even though under the distinguished chairmanship of Dr. James R. Killian, Jr., president of the Massachusetts Institute of Technology—is enough to fill the need.

What is required is not so much a part-time board of private citizens, no matter how eminent, as a permanent committee with strong congressional representation to provide some guide to broad legislative supervision of the work of the Central Intelligence Agency. Senator Mansfield, of Montana, has long advocated a joint congressional committee which would have the same relationship to the Central Intelligence Agency as the present one on atomic energy now has to the work of the Atomic Energy Commission. Once again we endorse that proposal.

We are not advocating that Congress or anyone else should interfere with the day-to-day operation of the Central Intelligence Agency. That would obviously be nonsensical. But it is not nonsensical for a responsible body of congressional leaders to be in a position to understand and to evaluate the foreign intelligence work that is carried out on behalf of the United States Government. And if such a supervisory body were established we are confident that many of CIA's troubles with Congress, based on suspicion and misunderstanding, would evaporate.

Hearings on the plan for a joint congressional committee are scheduled to begin this week. We hope that Senator Mansfield will not be deflected from his purpose.

From the Washington Post and Times Herald, of January 21, 1956:

No doubt the creation of this board and the enlargement of the House Armed Services Subcommittee were in part intended to fend off passage of Senator Mansfield's bill for a Joint Congressional Committee on Central Intelligence. Some CIA officials have been skeptical of the Mansfield proposal bill because of the difficulty of insuring that members would not attempt to direct operations or blab secrets. Perhaps the new arrangements will serve somewhat the same purpose as a congressional committee, though in this newspaper's opinion a more specific legislative link would pay dividends if a satisfactory formula could be found. At any rate, the principle of a continuing outside check on intelligence is important, and the appointment of the new board is noteworthy on this account.

THE ARGUMENT FOR A JOINT CONGRESSIONAL COMMITTEE ON THE CENTRAL INTELLIGENCE AGENCY

I. ANALOGY TO THE JOINT COMMITTEE ON ATOMIC ENERGY

Congressional oversight has always existed over atomic energy. The Joint Committee on Atomic Energy functions in an area equally sensitive as foreign intelligence. It possesses a highly specialized and competent staff in which it has full confidence. Most of the work performed by this joint committee is of the highest security classifi-

cation. And yet the names, titles, and salaries of the staff publicly appear yearly in the report of the Secretary of the Senate.

The Joint Committee on Atomic Energy has cognizance of matters transcending or cross-cutting the military use of the atom. In this regard, it probably traverses jurisdictional lines of Armed Services Committees from time to time. Yet there is no dispute as to these interlocking jurisdictions whenever they occur.

The work of the Joint Committee on Atomic Energy has been of benefit to the country at large. It has maintained congressional liaison with, and congressional control of, much of the work of the Atomic Energy Commission. It has provided a forum where information can be solicited and exchanged to the mutual satisfaction of all parties. It has given to Congress, for its guidance and assistance, a trained staff especially concerned with atomic energy matters. It has, at the same time, provided the Atomic Energy Commission with a legislative group familiar with its problems and alert to its particular needs and objectives.

The members of the Atomic Energy Committee have the full confidence of the other Members of Congress. Their legislative actions are based on the knowledge that trusted Members of both Houses are fully cognizant of developments in atomic energy. They do not have to depend on the unilateral judgment of the executive branch as to what Members of Congress ought or ought not to know.

What is true of the Joint Committee on Atomic Energy can be true of a new joint committee organized to oversee the Central Intelligence Agency. The establishment of such a committee could carry forward the essence and the purpose of the second phase of the Hoover Commission recommendation. It need not be organized as a committee on foreign intelligence to go beyond the fields traversed by the CIA. A joint committee on the CIA would direct itself to the activities of that agency and, thus, to the core of the Nation's intelligence function.

II. TO PROVIDE ADEQUATE CONGRESSIONAL LIAISON WITH CIA

A new joint committee staff would be able to maintain an effective check on the operations of the CIA. It would insure that the Congress was currently advised of central intelligence on a need-to-know basis. The creation of a specialized joint committee would promote new confidence between Congress and the CIA, and establish a congressional outlet through which the general public could be appropriately advised of pertinent intelligence information. It would also be an amenable forum for the registering of congressional doubts and complaints and the initiation of advisory and corrective action with respect to any errors which might be apparent. There would be a private scrutiny at high level for both public and democratic ends. No classified or ill-advised revelations would be made. At the same time, any suspicions could be resolved as they arise.

The joint committee would replace interim briefing and interim visits by CIA representatives to the Hill with more constant liaison between the Congress and the Agency, especially with the Agency's legislative needs. The staff selected by the joint committee could pursue independent investigations on a confidential or nonconfidential basis as required. When it is considered that the joint committee would be composed of those members of the Armed Services and

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Appropriations Committees who are now cognizant of CIA affairs, and that they in turn shall select the staff, any objection predicated on control or security grounds is quickly dissipated.

III. STUDIES OF CIA BY TEMPORARY GROUPS ARE NOT SUFFICIENT

The record on CIA should now be so complete that further ad hoc boards to inquire into its functions are no longer necessary. Each survey has found inadequacies; each survey has found an Agency well aware of its shortcomings but always taking steps to correct them. The findings in the past, for the most part, were secret and were conveyed to the White House because of their security classification. If the substances of the findings were laid before Congress afterward, there was no permanent congressional staff ready to give them independent evaluation.

It is not enough that CIA be responsible alone to the White House or the National Security Council. Such responsibility should be shared with Congress in a more complete manner. Until a committee of the kind Senate Concurrent Resolution 2 proposes is established, there will be no way of knowing what serious flaws in the Central Intelligence Agency may be covered by the curtain of secrecy in which it is shrouded. As Hanson Baldwin has commented in the New York Times:

> [CIA] engages in activities that, unless carefully balanced and well executed, could lead to political, psychological, and even military defeats, and even to changes to our form of government.

A congressional auditing of the CIA is compatible with the legitimate purposes of the Government. It is true that intelligence services of other major countries operate without direct control of the legislatures. This is understandable in a totalitarian government, such as the Soviet Union. It is even understandable in a parliamentary democracy, such as Great Britain, where the entire administration is part of its responsibility to the Parliament. Our form of government, however, is based on a system of checks and balances. If this system gets seriously out of balance at any point, the whole system is jeopardized and the way is open for the growth of tyranny.

IV. SECRECY, FOR SECRECY'S SAKE, INVITES ABUSE

It is agreed that an intelligence agency must maintain secrecy to be effective. If sources of information were inadvertently revealed, they would quickly dry up. Not only would the flow of information be cut off, but the lives of many would be seriously endangered. In addition, much of the value of the intelligence product would be lost if it were known that we possessed it. Secrecy for these purposes is obviously necessary.

There is, however, a profound difference between an essential degree of secrecy to achieve a specific purpose, and secrecy for the mere sake of secrecy. Once secrecy becomes sacrosanct, it invites abuse. If we accept this idea of secrecy for secrecy's sake, we will have no way of knowing whether we have a fine intelligence service or a very poor one.

Secrecy now beclouds everything about CIA, its cost, its personnel, its efficiency, its failures, its successes. An aura of superiority has been built around it. It is freed from practically every ordinary form

of congressional review. The CIA has unquestionably placed itself above other Government agencies. There has been no regular, methodical view of this Agency, other than a briefing which is supplied to a few members of selected subcommittees. It is difficult to legislate intelligently if there is a dearth of the information upon which Congress must rely in its deliberations to protect the public welfare in any governmental concern.

Conclusion

Senate Concurrent Resolution 2 has 35 recorded sponsors, more than one-third of the Senate. There are some 25 concurrent resolutions of like nature pending in the House of Representatives. The Committee on Rules and Administration believes that these two facts show the conviction of a large segment of the Congress that action should be taken on the matter in both Houses without further delay. The representatives of the people should be given, through a joint committee of Congress, the right to act vis-a-vis the CIA. To that end, the Committee on Rules and Administration recommends that Senate Concurrent Resolution 2, as amended, be approved.

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APPENDIX

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INDIVIDUAL VIEWS OF MR. HAYDEN

STATEMENT

Senate Concurrent Resolution 2 is based upon the mistaken and erroneous assumption that the Congress has maintained little or no control over the expenditures of the Central Intelligence Agency (CIA) and that Senators and Members of Congress who should be informed have been kept in the dark as to its activities because of a veil of secrecy imposed by the executive branch. The truth is that the Armed Services Committees of the Senate and the House of Representatives have continuously and do now maintain supervision over the operations of that Agency to an entirely adequate degree. This is made clear by quoting a paragraph from a letter addressed on January 26, 1956, to the chairman of the Senate Committee on Rules and Administration by the Senator from Georgia, Mr. Russell, who is the chairman of the Senate Committee on Armed Services:

> The responsible officials in the Central Intelligence Agency have demonstrated their willingness to keep the Armed Services and Appropriations Subcommittee fully informed on the subject of the Agency's activities and operations. Although I cannot speak with authority on the extent to which all the existing subcommittees on Central Intelligence Agency carry out their functions, I do know that the subcommittee of the Senate Armed Services Committee has had periodic contact with the appropriate Central Intelligence Agency officials. At these meetings the Central Intelligence Agency representatives have candidly furnished the desired information and have responded to the specific complaints and criticisms that have been voiced in Congress and in the press. It is entirely coincidental but it happens that the Senate Armed Services Subcommittee is holding its first meeting of 1956 with Central Intelligence Agency officials on the same date that your committee has scheduled for the consideration of Senate Concurrent Resolution 2.

ARMED SERVICES COMMITTEE JURISDICTION

While no definite rule has been adopted by either body conferring jurisdiction over legislation relating to the Central Intelligence Agency upon the Armed Services Committees of the Senate and the House of Representatives, there is a clear precedent which establishes that jurisdiction. The National Security Act of 1947 created the Central Intelligence Agency and since then the 3 subsequent amendments to that act affecting the Agency have all been considered by and reported from those 2 committees.

The functions of the Central Intelligence Agency are essentially functions of an executive character in assisting the President of the United States, the National Security Council, the State Department, and the Department of Defense to carry out their responsibilities. If a joint committee of the Congress is established to supervise the work of this executive Agency, it might very well be argued that due to some failure of the standing committees of both branches of Congress properly to perform their duties, a joint committee should

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be set up for each of the Departments of Interior, Agriculture, Commerce, and other executive agencies. If the CIA must have a "watchdog" joint committee why not have one for the FBI?

THE APPROPRIATIONS COMMITTEES

Owing to the active interest taken by the ranking members of the Senate and House Armed Services Committees in the operations of the Central Intelligence Agency, it has not been necessary for like members of the Senate and House Appropriations Committees to devote as much attention to what the Agency is doing as would otherwise be required. When submitting requests for funds to carry on its activities, responsible officials of the Agency have demonstrated each year their willingness to keep the designated members of the Appropriations Committees fully informed as to its operations.

There has been open and free exchange of all necessary information required for an adequate liaison between the Congress and the Central Intelligence Agency. No information has been denied and all desired information has been candidly supplied.

I can also personally certify that committee members have, from time to time, refused proffered information because such information has no relation to the normal legislative procedures of Congress. How far to go in seeking detailed information is well stated in this further quotation from Senator Russell's letter:

> Throughout my tenure in the Senate I have consistently advocated the right of Members of Congress to information that was required for the formulation of legislation. In this instance, the legislation affecting the Central Intelligence Agency is not of sufficient magnitude to be burdensome. On the other hand, the importance of the results of Central Intelligence Agency activities to our national safety can hardly be exaggerated. If there is one Agency of the Government in which we must take some matters on faith without a constant examination of its methods and sources, I believe this Agency is the Central Intelligence Agency.

The concurrent resolution leaves little or no room to "take some matters in faith" by specifically directing that—

> The Central Intelligence Agency shall keep the joint committee fully and currently informed with respect to *all* of its activities.

INVESTIGATIONS OF THE CENTRAL INTELLIGENCE AGENCY

As the history in the majority report indicates the Central Intelligence Agency has been intensely and repeatedly investigated by various special commissions during the past 5 years. Reference is made to a number of recommendations by these commissions and the report implies that there is little or no evidence of any action by the Central Intelligence Agency as a result of these recommendations. It is not alleged that the Central Intelligence Agency has failed to cooperate fully with commissions, sponsored both by the Congress and by the Executive, which have investigated its activities, or that it has failed to take positive action on their recommendations and to report such action to the appropriate congressional committees.

For example, the majority report refers to recommendations in the 1949 Hoover Commission report that a top-level evaluation board be set up within the Agency and that the internal structure of the Agency be reorganized and improved. In 1950, such an evaluation board was set up, and the internal structure of the Agency has been

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reorganized so as to improve its effectiveness. It is a fact that successive commissions which have investigated the Central Intelligence Agency have disagreed with the recommendations of their predecessors. It is also a fact that the Agency has adopted legitimate recommendations made in such reports without disrupting the continuity of its organization and activities.

The majority report also shows that, as recommended in the 1955 Hoover Commission report, the President by an Executive order issued on February 6, 1956, has established a board of consultants consisting of eight distinguished citizens, outside of the Government, to keep him regularly advised on the conduct of activities in the foreign intelligence field and to report its findings at least twice a year. The imposition of another supervisory committee with jurisdiction over the Agency would only serve to complicate matters.

The Congress and the President have given the Central Intelligence Agency a most important job to do. Subcommittees of standing committees of the Congress have been created to provide for the appropriate jurisdiction of the Congress over this activity. The greatest service we can do now is to facilitate the important work of the Agency and to let it get its job done without being watchdogged to death.

THERE IS NO SECRECY FOR THE SAKE OF SECRECY

It should be emphasized, most strongly, that secrecy for secrecy's sake does not exist in, nor is it an objective of, the Central Intelligence Agency.

Such confidential and secret procedures and operations as necessarily characterize its activity are designed wholly for the security of this Nation, the saving of men's lives and the obtaining of essential information which will achieve these vital ends. There is no present evidence of any policy of secrecy having become sacrosanct. Upon the contrary, such secrecy as is being observed is appropriate and necessary.

Furthermore, I repeat that the Central Intelligence Agency *is* subject to congressional review by four established and fully authorized subcommittees. The first 2 of these are the subcommittees on the Central Intelligence Agency of the Senate and House Armed Services Committees; the second 2 of these are subcommittees of the Senate and House Appropriations Committees. These subcommittees seem clearly to be adequate for such a supervisory purpose and function. If they are not doing their job fully and properly, it should be brought promptly and emphatically to their attention as a more appropriate and effective means of achieving the end desired than the creation of a new joint congressional committee for such a purpose.

THE JOINT COMMITTEE STAFF

It would be almost impossible for the staff of such a joint legislative committee to function helpfully because of the high security demanded in the work of the Central Intelligence Agency. The information given to Members of Congress by officials of the Central Intelligence Agency is given to them personally and their judgment as to what may be properly reported is final.

Senate Concurrent Resolution 2 empowers the joint committee—

> to appoint such experts, consultants, technicians, and clerical and stenographic assistants as it deems necessary

and the majority report states that—

> The establishment of a Joint Committee on Central Intelligence will insure the existence of a trained, specialized, and dedicated staff to gather information and make independent checks and appraisals of CIA activities pursuant to the committee's directives and supervision.

This statement appears to contemplate that the staff will do the work and reach conclusions as to how effectively the Central Intelligence Agency is operating.

A new and separate staff of some magnitude must be contemplated since an annual expenditure of $250,000 is authorized. This is almost as much as the $258,000 now available to the Joint Committee on Atomic Energy, which at present maintains a professional and clerical staff of 21 individuals.

There is actually no real need for such a staff either large or small. Despite the flexibility which the Congress has granted to the Central Intelligence Agency in carrying out its unique functions, the Agency has administratively taken measures to control its expenditures in at least as strict a manner as other Government agencies and to require a complete accounting for the use of all of its funds, vouchered or unvouchered. This system, and the actual use of the funds are described each year to the appropriations subcommittees.

The Central Intelligence Agency is essentially an executive Agency. It is not an arm of the Congress to carry into effect legislative policies as are the Interstate Commerce, the Federal Trade or other like Commissions. The act of July 26, 1947, after first creating a National Security Council to advise the President on national security matters then established the Central Intelligence Agency under the National Security Council. The principal functions of the Agency were to correlate and evaluate for the Council information obtained from other departments and agencies of the Government and to keep the Chief Executive informed from day to day as to the activities of foreign governments with whom the Constitution gives the President the sole right to conduct foreign relations and to negotiate treaties.

It is obvious that there is no possible way for the joint committee to keep "fully and currently informed" with respect to all of the activities of the Central Intelligence Agency except to have a member of its staff sit in as a "watchdog" at all meetings of the National Security Council, and after each meeting make a report to the joint committee of what he has learned.

THE LEGISLATIVE BRANCH CANNOT TAKE OVER AN EXECUTIVE FUNCTION

The creation of a Joint Committee on Central Intelligence, with the functions and powers provided for in Senate Concurrent Resolution 2 would be certain to raise a constitutional issue on the separation of powers between the executive and legislative branches of the Government. Activities are undertaken by the Central Intelligence Agency only in accordance with directives of the National Security Council. The availability of intelligence of the highest order to the President and to the National Security Council is an essential element

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in the formulation of the foreign policy of the United States, and in the conduct of foreign relations by the President in carrying out that policy. Any congressional action which seeks to alter the legally established relationship between the Central Intelligence Agency and the National Security Council would tend to impinge upon the constitutional authority and responsibility of the President in the conduct of foreign affairs.

The provisions of the National Security Act are a recognition by the Congress of the highly sensitive nature of Government intelligence activities. Senate Concurrent Resolution 2, if adopted, will not be submitted to the President for approval or disapproval. Consequently, any of its provisions which contravene existing law will have no mandatory effect. The existence of such provisions in a resolution agreed to by both Houses, however, would lead inevitably to continuing difficulties of construction and interpretation which would impair the continuity of sound and proper relationships between the executive and legislative branches in intelligence matters.

THE CENTRAL INTELLIGENCE AGENCY AND THE ATOMIC ENERGY COMMISSION

The Central Intelligence Agency and the Atomic Energy Commission have nothing in common except the secrecy which is required because both deal with highly classified matters of the greatest importance to the national security. Beyond that, their functions are not comparable. Through the Commission as its operator, the Government is in the manufacturing business—the business of making nuclear energy. Consequently, the Congress has a very different relationship with that Commission than any other governmental agency.

The cost of this business operation is enormous. Beginning in 1941 with the Manhattan project, financed first from the emergency fund for the President and later in various hidden amounts in appropriation bills, and continuing with the Atomic Energy Commission since 1947, appropriations have totaled $15,202,600,000, of which $6,806, 200,000 has been expended for operations and $8,396,400,000 has been expended for facilities. The total amount made available to the Central Intelligence Agency since it was created in 1947, is only a minor fraction of even the smallest of those vast sums.

There has been need to make only minor changes in the act creating the Central Intelligence Agency, but the problems of Atomic Energy are constantly changing. Legislation concerning the activities of the Atomic Energy Commission must be frequently brought up to date to permit it to function adequately.

The dynamics of the program for developing peacetime aspects of atomic energy have tremendous potential consequences for major aspects of national policy. The future production of electric power from coal, oil, or natural gas may be vitally affected. Atomic Energy Commission policies can give rise to conflicts of interest between various groups and individuals and the resulting issues must be subjected to legislative scrutiny. For example, bills before the Joint Committee have such subjects as construction of industrial facilities, housing at Oak Ridge and self-government at Hanford, taxation, patents, contract awards, and guaranty of uranium ore prices. No such factors relate to the conduct of foreign intelligence.

CONCLUSIONS AND RECOMMENDATION

A Joint Committee on Atomic Energy was established because of the particular nature of the nuclear problem and the fact that the Federal Government was forced to go into private business on a massive scale. This had important domestic implications in a broad range of fields. The intelligence activities, which it is proposed be subject to a joint committee's scrutiny, are peculiarly the prerogative of the Executive and intimately associated with the conduct of the foreign relations of the country.

I am firmly convinced that Congress now, through its regular committees on Armed Services and on Appropriations has the opportunity to get the necessary information from the Central Intelligence Agency and the designated members of those committees are doing so without in any way endangering the security of the information given them. We must also remember that the Central Intelligence Agency carries on its work outside the United States boundaries. Many of its agents are in constant physical danger. We, as Members of Congress, must do our part to see that the work is carried on wisely, efficiently, and with due security to the persons who are working in the interests of our Government.

The contacts between the Central Intelligence Agency and the Congress should never be allowed to prejudice or compromise the highly secret work of that Agency. What the Congress has needed to know in the past it has been told. What the Congress will require to know in the future it can obtain through means already in existence. A new joint committee will only complicate the process.

For the above stated reasons I voted against reporting Senate concurrent resolution 2 to the Senate and urgently recommend that it be not agreed to.

CARL HAYDEN.

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TAXATION OF INSURANCE COMPANY INCOME

FEBRUARY 23 (legislative day, FEBRUARY 22), 1956.—Ordered to be printed

Mr. BYRD, from the Committee on Finance, submitted the following

REPORT

[To accompany H. R. 7201]

The Committee on Finance, to whom was referred the bill (H. R. 7201) relating to the taxation of income of insurance companies, report favorably thereon with amendments and recommend that the bill as amended do pass.

The amendments are as follows:

(1) The House bill rewrites section 804 of the Internal Revenue Code of 1954 which provides a reserve and other policy liability deduction against the investment income of a life insurance company. Under the House bill for 1955 this deduction would be determined as 92½ percent of the net investment income allocable to pension plan reserves plus 90 percent of such income allocable to reserves for annuity contracts and deposits plus 85 percent of so much of the balance of the investment income as is not allocable to non-life-insurance reserves. Your committee has amended this provision to delete all special deductions with reference to pension, annuity, and deposit business, and to provide a larger deduction primarily affecting certain small life insurance companies. Under your committee's bill the deduction will be 87½ percent of the first $1 million of net investment income allocable to life insurance reserves and 85 percent of the balance allocable to such reserves.

(2) Under section 804, as provided in the House bill, a maximum limitation is imposed upon the reserve and other policy liability deduction of a life insurance company. In general, this limitation is equal to two times the reserve interest requirements shown on the company's own books on reserves in connection with policies involving life contingencies, plus the amount of certain other interest obligations and dividends to policyholders. Your committee has amended this provision to allow a statutory presumption of reserve interest in the case of certain mutual assessment life insurance companies which do not have a formal reserve interest obligation.

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(3) The House bill would add a new section 818 to the Internal Revenue Code which allows an alternative tax base related to total income for the first 5 years of operation in the case of a life insurance company first authorized to do life insurance business before July 1, 1955. Your committee has amended this provision to make it applicable to the first 5 years of operation of a company whenever organized.

(4) Life insurance companies were in doubt about the applicable tax law at the time when the estimated tax for 1955 was payable, September 15 and December 15 of 1955. Under general authority provided by the Internal Revenue Code, the Commissioner of Internal Revenue extended the time for filing the declaration of estimated tax for these corporations until March 15, 1956. However, these companies were not released from the additions to tax provided under section 6655 of the Internal Revenue Code for failure to pay the estimated tax. Your committee has added a section 7 to the House bill to provide that no additions to tax shall be made in this situation.

(5) Several clarifying amendments have been made in the House bill. These amendments are discussed below.

Purpose of the Bill

This bill, as amended by your committee, has two principal purposes. Basically the bill provides a tax on life insurance companies for the year 1955. To this extent it is a stopgap bill. Under the terms of the bill for 1956 and later years, the tax formula provided under present law for life insurance companies will be in operation. This is, basically, the same formula that was first enacted in the Revenue Act of 1942. The committee expects that additional legislation will be initiated in the House during this year relating to the taxing of life insurance companies for the future. In this connection the Secretary of the Treasury has stated:

> * * * I suggest that an attempt be made to develop a method of taxing life insurance companies like other business, on the basis of their entire income from all sources, with appropriate deductions for their expenses and additions to their reserves against policy contracts * * *. It should now be possible to develop a fairer basis for taxation which will include all of the income and deduction items which properly reflect the earnings position of a life insurance company.

Apart from the 1-year provisions of this bill, certain basic reforms are made in the detailed procedures for taxing life insurance companies that may be applicable in the future under any investment income formula. Under the House bill, as with the bill as amended by your committee, these reforms are incorporated in the basic (1942) provisions so they will become operative in 1956 if those provisions become effective after 1955.

Summary of the Bill

The bill continues to disregard underwriting gains and losses in the determination of taxable income, because of the difficulties of taxing insurance companies on the regular corporate basis. The methods of dealing with investment income and the taxation of income from non-life insurance business, however, are somewhat changed. The formula in effect in 1954 in effect taxed life insurance companies at regular corporate rates after deducting 87½ percent of the portion

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deemed allocable to life insurance business. This deduction ratio is retained for the first $1 million of such income and a deduction ratio of 85 percent is provided for the balance.

With respect to non-life-insurance business, primarily accident and health insurance, the bill moves in the direction of equalizing the tax treatment of life and casualty insurance companies. It is provided that both stock and mutual life insurance companies will pay tax on the income from this business as if it were the income of a mutual casualty insurance company.

The bill makes several changes in the taxation of life insurance income designed to improve the definition of income and to prevent abuse of the life insurance treatment by companies which are not entirely life insurance companies. Several improvements in the income definition have been applied to casualty insurance companies as well as to life insurance companies. The reserve interest credit, a relief device provided in the Revenue Act of 1951 for certain companies with low earnings relative to their reserve and other policy requirements, is retained in substance.

The bill imposes a tax under the new system only for the year 1955 and provides that a tax similar to that imposed by the Revenue Act of 1942 will come into operation thereafter. By this action the committee does not intend any expression of approval of the tax formula provided in the 1942 act, but has provided for the application of that formula to 1956 because it is the method of taxing life insurance companies under the law as of the present time. The so-called stopgap formula in use since 1950 has not been extended beyond 1954.

It is estimated that the tax imposed on life insurance companies for the calendar year 1955, under this bill, will be $248 million. This differs from the tax that would be imposed by the House bill, which was $220 million. If the life insurance companies had continued to pay tax under the formula in effect in 1954, the tax on 1955 income would have been $197 million.

Discussion of Substantive Committee Amendments

The principal amendment made by your committee removes from the House bill the provisions for special treatment of the business of a life insurance company connected with qualified pension plans and with annuities and deposits. Various companies objected to these provisions in the House bill. Your committee thought that it could not enact into law the principle of special treatment of pension and annuity business without hearings and further study. Since time did not permit such a study, the provisions have been removed from this bill with the understanding that this question will be further examined by the Congress in connection with legislation for 1956.

The special treatment of the first $1 million of investment income in the hands of a life insurance company is designed to provide that relatively small life insurance companies would pay approximately the same tax as they would have paid under the law in effect in 1954.

It was felt that a tax increase on these companies might hinder the growth of competition in this field. The small business relief has been designed in such a manner that it will relate only to the life insurance portion of the company's income and will not involve a notch area subject to a high marginal rate of tax.

The extension of the application of section 818 of the House bill is designed to deal with the problem with respect to certain new life insurance companies which was created by a loophole closing provision inserted in the House bill. Under present law an insurance company may be able to have a relatively large life insurance deduction, proportionate to a relatively large investment income, even though its life insurance obligations may require only a small amount of investment income. In the extreme this might permit a company to be operated primarily as an investment company with very little life insurance business. H. R. 7201 deals with this problem by limiting the deduction against investment income to twice the amount actually needed according to the company's books for reserve interest requirements plus the amount needed for other interest commitments and policy dividends. Thus, excess investment income would be taxed at full corporate rates. Any new company must, however, have an initial capital before it can sell any insurance and have reserves. Thus, for a while it is bound to have excess investment income. The House bill provided relief in this situation for a new company first authorized to do business before the approximate announcement date of the House bill. Such company would be permitted to use as an alternative tax base its total income before tax as reported on the annual statement to the National Convention of Insurance Commissioners. This relief device would permit the company to take into account any excess of its insurance expenses over its premiums. It would automatically relieve a new, expanding life insurance company because excess investment income would be taxable only to the extent that it was not used to cover deficits incurred in establishing the life insurance business. Your committee approves of the intention of this provision and has extended it to new companies whenever authorized to commence business.

The maximum limitation of the reserve and other policy liability deduction provided in the House bill would work an unintended hardship in the case of certain mutual assessment life insurance companies which must keep a deposit with State insurance departments. These companies have reserves recognized as life insurance reserves under present law and they earn interest, but the policy contract does not specify a required interest on such reserves. Under the House bill, therefore, the entire interest earned would be deemed to be excess interest. Your committee has amended the House bill to allow a statutory presumption of required interest up to 3 percent in this case. This will put such companies in substantially the same position as other mutual insurance companies.

The bill was received from the House by your committee in July of 1955. At the same time certain other pressing legislation was received. Your committee did not feel able to give adequate consideration to the problems involved in the short time before adjournment. This left life insurance companies apparently subject to tax on 1955 income under the terms of the 1942 formula, which would involve a higher tax than was imposed under the House bill. Since your committee did not intend that this formula should come into operation, the Commissioner of Internal Revenue used the general authority provided under the Internal Revenue Code to postpone for life insurance companies the time for filing the declaration of estimated tax. This declaration was required under the Internal Revenue Code of 1954,

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which provided that in 1955 corporations (with probable tax liabilities over $100,000) would be required to estimate the tax payable on the income of that year, and pay 5 percent of such estimate by September 15 and 5 percent by December 15. While the Commissioner postponed the date for filing the declaration the companies involved were not relieved of the obligation for additions to tax for failure to pay appropriate amounts on September 15 and December 15. This addition to tax is computed at the rate of 6 percent per annum on the underpayment. It was indicated at that time that it was the intention of your committee to propose that these companies be relieved of the addition to tax, which the amendment adding section 7 to the bill does.

Discussion of Clarifying Committee Amendments

Several clarifying amendments have been made in the House bill. The first of these corrects an erroneous reference contained in the last sentence of section 802 (f). The second of these amendments is made to the last sentence of paragraph (2) of section 804 (b). This amendment makes it clear that in computing the average rate of interest for purposes of the adjustment for policy loans, there shall be taken into account 7 percent of that portion of the life insurance reserves which are computed on a preliminary term basis. The third of these clarifying amendments is made to subsection (c) of section 811. This subsection provides the manner for computing the special interest deduction under the 1942 life insurance formula which the bill provides shall come into effect in 1956. The amendment is designed to make the special interest deduction operate in the same manner as it did from 1951 to 1954. The last of the clarifying amendments changes section 818 of the House bill. Subsection (c) of this section provides that a certain part of the dividends received credit shall be allowed in the case of new companies taxed on the basis of total income. The amendment is designed to insure that the deduction will in fact be allowed.

Detailed Explanation of the Bill

A. REGULAR LIFE INSURANCE BUSINESS

Except for special treatment of the first $1 million, the bill provides a deduction of 85 percent of the net investment income allocable to the regular life insurance business. On the basis of reserves presently stated on the company books, the industry currently needs less than 85 percent of its net investment income to fulfill policy obligations, although the committee was told that 85 percent is an average deduction ratio over the last 5 years. This smaller current interest requirement is due in part to the fact that in recent years the companies have transferred considerable amounts of surplus to reserves in a process known as reserve strengthening. While this does reduce the current need for interest additions to reserves, it does not appear desirable that tax liability should depend on pure bookkeeping changes. Moreover, the ratio of interest requirements to current interest earnings will vary considerably over time because of the slow adjustment of reserve interest patterns to changing interest rates. It also does not appear desirable that tax liability should depend on these year-to-year variations in the reserve interest picture.

B. NONLIFE INSURANCE BUSINESS

The bill provides for 1955 that stock and mutual life insurance companies will pay tax on the income from nonlife insurance business as if it were the income of a mutual casualty company. This means that they will pay the higher of (1) a tax at regular corporate rates on their net investment income from that business or (2) a tax of 1 percent on the gross investment income from that business plus premiums (less dividends) on those policies. For this purpose the investment income is required to be determined in the same manner as for a mutual casualty company. This involves taking into account a proportionate part of the net capital gain (to which the alternative capital gains tax is applicable) and a proportionate part of the dividends received credit.

For many years the investment income attributable to the nonlife insurance business has been viewed as 3¼ percent of the unearned premiums and unpaid losses on that business. Under this bill for 1955 the income attributable to the nonlife insurance business is that part of the total net investment income which corresponds to the ratio of these nonlife reserves to the total reserves.

In the casualty insurance field, where stock companies predominate, the stock companies are subjected to a different tax computation from mutuals, one that usually results in a higher tax. It is feared that if this were applied to the accident and health field of the life insurance industry, where mutuals predominate, the competitive consequences could be quite serious.

C. THE DEFINITION OF INCOME

The gross income of a life insurance company under present law is defined as interest, dividends, and rents. This definition has been changed by expressly including (1) royalties; (2) certain amounts received in connection with entering into, altering, or terminating agreements such as leases and mortgages; and (3) income derived from the operation of a noninsurance business. Royalties are considered to be similar to rents. Similarly, the receipts in connection with certain agreements are considered similar to the income received under the agreements. These amounts would include, for example, a bonus on entering into a lease and a penalty for early repayment of a mortgage. Normally a life insurance company will only have income from a noninsurance business where it acquires a going business in foreclosing a mortgage. Income earned in this situation is considered to be similar to mortgage interest. In some cases there is uncertainty as to the status of these items under present law.

The deductions corresponding to these types of income are allowed. Thus, the bill provides a deduction for depletion and a deduction for the ordinary expenses of any noninsurance business. As has always been the case, capital gains are not included in life insurance income.

The deduction for dividends received on corporate stock held for the life insurance business is denied on the grounds that the life insurance company already gets at least an 85 percent deduction on this income.

Where appropriate, these modifications of the definition of investment income have also been applied to casualty insurance companies. For mutual casualty companies there are expressly added to the pres-

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ent definition of income royalties, payments in connection with agreements, and income from a noninsurance business. The corresponding deductions are allowed. Under present law all of these types of income are includible in the case of a stock casualty company, but the bill allows a deduction for depletion which is not allowed in the 1954 Code.

D. ABUSES OF THE LIFE INSURANCE PROVISIONS

The bill makes several changes in present law designed to prevent abuses of the special tax treatment permitted in the case of life insurance companies. One of these new provisions is an overall ceiling imposed upon the reserve and other policy liability deduction. That deduction, in general, is determined by means of specified percentages of net investment income and serves in lieu of a deduction for the actual commitment of each company to pay and accrue interest. But if, on the basis of its actual commitments, the investment income is far greater than what is necessary, instead of deducting the normal percentage, 87½ or 85 percent, of this large investment income, a ceiling for the deduction is imposed. The ceiling is roughly 200 percent of the interest requirements on life insurance reserves plus the actual interest commitments on contracts not involving life contingencies, plus dividends to policyholders. A dividends received deduction is allowed for the portion of dividends included in the part of income taxable at full rates. In some cases there is uncertainty as to the status of these items under present law.

In the computation of the ceiling on the reserve and other policy liability deduction it is provided that the interest on life insurance reserves to the extent that those reserves are matched by policy loans may be taken at only 100 percent and not 200 percent. This is designed to prevent the abuse of creating more or less fictitious life insurance reserves by selling insurance policies where a policy loan is extended immediately for almost the full amount of the premium.

Another new provision deals with the definition of a life insurance company. Under present law, an insurance company is denominated a life insurance company if more than 50 percent of its reserves are life insurance reserves. This rule is continued, but a modification is provided. Under present law a company finding its reserves other than life (generally accident and health insurance reserves) rising over the 50 percent can avoid taxation as a casualty insurance company by "manufacturing" life insurance reserves through the device of selling insurance policies and extending policy loans to the amount of the reserves set up on these policies. This is a paper transaction to disguise the true character of the company. The bill would remove the amount of policy loans from both life reserves and total reserves and apply the 50 percent test as though these transactions had never occurred.

The inclusion in the bill of a definite formula is not intended to affect the general principles of law under which sham transactions may be disregarded. Furthermore, it should be pointed out that the formula is not confined to situations similar to that described above, since its application is generalized to all policy loans whether or not they arise in the normal course of operations. It is considered that to the extent a life insurance company lends money to a policyholder it is creating a position similar to that which would have existed if it had initially sold him a policy involving a lower net reserve.

There is a potential abuse situation in the case of the so-called captive insurance companies. It may be possible for a finance company, for example, to establish a subsidiary life insurance company that will issue life insurance policies in connection with the business of the parent. If the subsidiary charges excessive premium on this business, a portion of the income of the parent company can be diverted to the life insurance company. It is believed that section 482 of the Internal Revenue Code of 1954 (relating to allocation of income and deductions among related taxpayers) provides the Secretary of the Treasury ample regulative authority to deal with this problem.

E. NEW INSURANCE COMPANIES

An alternative tax base is provided for the first 5 years during which a company is authorized to do business as an insurance company. Basically this section provides that if the investment income exceeds two times the interest requirements, so that the ceiling on the reserve and other policy liability deduction would come into effect, then the tax base cannot exceed the net gain from operations, after dividends to policyholders but before Federal income tax, as shown by the annual statement approved by the National Convention of Insurance Commissioners. In no case can this provision make the tax less than it would have been if there was no ceiling on the reserve and other policy liability deduction. Thus the company will be taxable at least on 12½ percent of its first $1 million of investment income on life insurance business and on 15 percent of the balance.

Section-By-Section Analysis of the Bill

FIRST SECTION

The first section of the bill contains a short title for the bill, namely, the "Life Insurance Tax Act for 1955".

SECTION 2

Section 2 of the bill amends part I of subchapter L of chapter 1 of the Internal Revenue Code of 1954 (relating to the taxation of the income of life insurance companies) by substituting for the existing sections 801 to 807, inclusive, a new text which is divided into three subparts:

1. Subpart A (secs. 801 through 805), which deals with the new formula for the taxation of the income of life insurance companies for the taxable year 1955;
2. Subpart B (secs. 811 through 813) which deals with the 1942 formula (with certain revisions) for the taxation of that income, which formula will become effective in 1956 if other legislation is not enacted; and
3. Subpart C (secs. 816, 817, and 818), which deals with foreign life insurance companies, the denial of double deductions, and an alternate treatment for certain new life insurance companies.

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SUBPART A

Section 801. Definition of life insurance companies

The new section 801 embodies, with a few minor changes, the definition of a life insurance company which is contained in section 801 of the Internal Revenue Code of 1954.

Subsections (a), (c), and (e) of section 801 are in substance the same as section 801 of the 1954 code, while subsection (b), with a minor exception, is in substance the same as section 803 (b) of the 1954 code. Under these subsections the total reserves and the life insurance reserves of an insurance company are defined. The company is treated as a life insurance company if more than 50 percent of its total reserves are life insurance reserves or certain reserves on noncancelable accident and health insurance. Paragraph (4) of subsection (b) specifies that the amount of these reserves shall be the mean of these reserves at the beginning and end of the taxable year. This corresponds to the present practice of the Internal Revenue Service in applying this definitional test.

Subsection (d) of section 801 introduces a new element in the definition of a life insurance company. An insurance company, in computing its life insurance reserves to determine whether it qualifies as a life insurance company under section 801 (a), must under the provisions of subsection (d) reduce its life insurance reserves and its total reserves by an amount equal to the mean of the aggregates, at the beginning and end of the taxable year, of the policy loans outstanding with respect to contracts for which life insurance reserves are maintained. The term "policy loans" is intended to include loans made by the insurance company, by whatever name called, for which the reserve on a policy is the collateral.

The effect of this subsection may be illustrated by the following example based on hypothetical data for the A insurance company selling only life insurance and cancelable accident and health insurance:

	Jan. 1	Dec. 31	Mean of year
1. Life insurance reserves	1,000	2,000	1,500
2. Policy loans	50	850	450
3. Life reserves less policy loans			1,050
4. Unearned premiums and unpaid losses on cancelable accident and health insurance	900	1,600	1,250
5. Total reserves under the bill (item 3 plus item 4)			2,300
6. Total reserves under present law (item 1 plus item 4)			2,750

The rule provided in the bill requires that the mean of the year figure in item 3 (1,050) be more than 50 percent of the mean of the year figure in item 5 (2,300). Thus under the bill the A company would not qualify as a life insurance company. The present law rule requires that the mean of the year figure in item 1 (1,500) be more than 50 percent of the mean of the year figure in item 6 (2,750). This company would be regarded as a life insurance company under present law.

Section 802. Tax imposed for 1955

The new section 802 imposes the tax on life insurance companies for the year 1955. In the case of a company having no non-life

insurance reserves (as defined in sec. 804 (d) (2)) the tax provided by subsection (a) applies only on its life insurance taxable income. In the case of a company having non-life insurance reserves the tax is either (1) the tax imposed by section 802 (a), or (2) the tax computed under section 802 (c) (2), whichever is the higher.

Subsection (a) imposes a tax consisting of a normal tax and a surtax (computed under secs. 11 (b) and 11 (c) of the 1954 Code, respectively) on the sum of the "life insurance taxable income" plus the "non-life insurance taxable income."

Subsection (b) defines "life insurance taxable income" as the "net investment income" minus the sum of the net investment income allocable to non-life insurance reserves, the reserve and other policy liability deduction, and the special interest deduction (if applicable). The term "net investment income" is explained in section 803; "net investment income allocable to non-life insurance reserves" in section 804 (d); "reserve and other policy liability deduction" in section 804; and "special interest deduction" in section 805.

Subsection (c) provides an alternative method of computing the tax in the case of life insurance companies having non-life insurance reserves. In such cases, the taxpayer insurance company pays the greater of either the tax imposed under section 802 (a) or the alternative tax computed under section 802 (c) (2). If the operation of section 1201 (a) (providing an alternative tax on capital gains) reduces the tax computed under section 802 (a) to an amount less than that computed under section 802 (c) (2), then the latter tax would apply.

The alternative tax under section 802 (c) (2) consists of the sum of two partial taxes. The first partial tax is a normal tax and surtax (computed as under secs. 11 (b) and 11 (c), respectively) on the taxpayer's life insurance taxable income. The second partial tax consists of the sum of (i) 1 percent of that portion of the gross investment income which is allocable to the non-life insurance reserves and (ii) 1 percent of the excess of the net premiums on the non-life insurance contracts over the dividends due policyholders (in their capacity as such) on those contracts. Net premiums and dividends to policyholders are to be computed as provided in section 823. Paragraph (2) (B) (i) of subsection (c) provides that the portion of the gross investment income allocable to non-life insurance reserves is to be an amount which bears the same ratio to gross investment income (reduced by the deduction for wholly exempt interest allowed by sec. 803 (c) (1)) as the nonlife reserves bear to the "qualified reserves" (defined under sec. 804 (c)). The "excess" described in clause (ii) of subsection (c) (2) (B) could conceivably be a negative figure which would then reduce the amount to be determined under such subsection.

Subsection (d) of section 802 provides methods for computing the deduction for partially tax-exempt interest. Paragraph (1) of subsection (d) provides (for the purpose of the normal tax computed under sec. 802 (a)) a deduction for partially tax-exempt interest equal to an amount which bears the same ratio to the amount of the deduction provided by section 242 as the sum of the life insurance taxable income (determined under sec. 802 (b)) and the net investment income allocable to non-life insurance reserves (determined under sec. 804 (d)) bears to the net investment income. Since the net investment income is reduced by the reserve and other policy liability

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deduction, the deduction for partially tax-exempt interest is correspondingly reduced. For the purpose of the normal tax in computing the first partial tax under section 802 (c) (2) (A), the deduction for partially tax-exempt interest is an amount which bears the same ratio to the amount of the deduction provided by section 242 as the life-insurance taxable income bears to the net investment income.

Subsection (e) of section 802 provides for a method of computing the alternative tax on capital gains in the case of a life insurance company which has non-life insurance reserves. Under section 1201 (a), if the net long-term capital gain of a corporation exceeds its net short-term capital loss, then the alternative capital gains tax is computed by reference to such excess. Under subsection (e), the excess to be taken into account is an amount which bears the same ratio to the excess described in section 1201 (a) as the non-life insurance reserves bear to the qualified reserves. In determining this excess, a net capital loss for any taxable year beginning before January 1, 1955, shall not be taken into consideration.

The "non-life insurance taxable income" of a life insurance company is defined in section 802 (f) as the net investment income allocable to non-life insurance reserves increased by a proportionate share of the net capital gain allocable to this non-life insurance income and decreased by the proportionate share of the deductions for dividends received provided in sections 243, 244, and 245. In computing the net capital gain for purposes of this subsection, a net capital loss for any taxable year beginning before January 1, 1955, shall not be taken into account.

Section 803. Income and deductions

Section 803 provides rules and definitions for the determination of income and deductions to be used only in the case of life insurance companies.

Subsection (b) of section 803 defines "gross investment income." It starts with the definition of gross income, as provided by section 803 (a) (2) of the Internal Revenue Code of 1954, and adds to that definition royalties and gross income from any trade or business (other than an insurance business) carried on by the life insurance company.

Subsection (b) (1) includes in the definition of "gross investment income" the gross amount of any income, received or accrued, during the taxable year, from interest, dividends, rents, and royalties. It is made clear that income includes the gross amount received in conjunction with the making of any lease, mortgage, or other instrument or agreement from which the life insurance company will derive interest, rents, or royalties, and the alteration or termination of any such lease, etc. Examples of such amounts would be a penalty for early payment of a mortgage and a bonus for entering into a lease. Any amount received in conjunction with an agreement which would be deemed a capital gain under other provisions of the Internal Revenue Code will not be included in gross investment income.

Under subsection (b) (2) of section 803, "gross investment income" also includes the gross income from any trade or business (other than an insurance business) carried on by the insurance company individually or in partnership. In determining the amount of income from such trade or business it is provided that any items described in section 803 (b) (1) be excluded. Gross investment income does not

include any gain from the sale or exchange of a capital asset. This exclusion applies also to any gain which is treated as a gain from the sale or exchange of a capital asset under other provisions of the Internal Revenue Code.

Section 803 (c) defines "net investment income" (a term comparable to "taxable income" as used in sec. 803 (g) of the Internal Revenue Code of 1954), as gross investment income (referred to in sec. 803 (b)) less a number of deductions.

The deductions for tax-free interest, investment expenses, and depreciation are in substance the same as provided in section 803 (g) of the 1954 Code. As under present law the insurance company is permitted to deduct taxes and other expenses (other than capital improvements) paid or accrued during the taxable year exclusively on or with respect to real estate owned by the company. The bill adds a reference to section 164 to bring into operation here certain changes in the deductibility of taxes adopted in 1954 which are not now applied to insurance companies. Paragraph (5) of section 803 (c) provides for a new deduction, that for depletion (and depreciation) allowed by section 611.

Paragraph (6) of this subsection allows the deductions attributable to any trade or business, the income from which is included in the life insurance company's gross investment income by reason of section 803 (b) (2), except losses from (*a*) sales or exchanges of capital assets, (*b*) sales or exchanges of property used in the trade or business (as defined in section 1231 (b)), and (*c*) losses from the compulsory or involuntary conversion of property used in the trade or business. The allowable deductions may exceed the gross income from this business. Any part of the deductions provided in paragraph (6) will be disallowed to the extent attributable to the carrying on of the insurance business. An example of this disallowance could be provided by a life insurance company that operated a radio station primarily to advertise its own insurance services. A portion of the expenses of the radio station (corresponding to the ratio of the value of advertising furnished to the insurance company to the total value of services rendered by the station) will not be allowed as deductions. Paragraph (6) also excludes the deduction for net operating losses provided in section 172.

Unlike present law this bill omits the deduction for intercorporate dividends in computing the basic net investment income of a life insurance company. It is specified in paragraph (6) that none of the deductions allowed in part VIII of subchapter B shall be allowed as expenses of the noninsurance business.

Subsection (d), limiting the deductions related to real estate, and subsection (e), relating to amortization of premium and accrual of discount on bonds and other evidences of indebtedness are in substance the same as subsections (h) and (i), respectively, of section 803 of the Internal Revenue Code of 1954.

Section 804. Reserve and other policy liability deduction

Section 804 provides a new rule for determining the "reserve and other policy liability deduction" for the purpose of subpart A of part I of subchapter L of the 1954 Code. Subject to the limitations provided in subsection (b), subsection (a) defines the term "reserve and other policy liability deductions" (for the purposes of the subpart) as meaning the sum of the amounts determined by applying

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the following percentages to the excess of the net investment income over the net investment income allocable to non-life insurance reserves (determined under subsection (d)):

(1) 87½ percent of so much of the excess as does not exceed $1 million; and

(2) 85 percent of so much of the excess as exceeds $1 million.

Subsection (b) provides that the deduction for reserve and other policy liabilities shall not exceed an amount which is equal to the sum of the following:

(A) Two times the required interest on life insurance reserves (determined under sec. 805 (c) (1));

(B) The required interest on reserves for deferred dividends (determined under sec. 805 (c) (2));

(C) The amount of interest paid (as defined in sec. 804 (d));

(D) The dividends to policyholders paid or declared (other than dividends on non-life insurance contracts referred to in subsection (d) (2) (A) of sec. 804; and

(E) In the case of a mutual assessment life insurance company or association such maximum is to be an amount equal to two times whichever of the following is the lesser:

(i) The amount of the net investment income on life insurance reserves described in subparagraph (A) or (B) of section 801 (b) (3); or

(ii) 3 percent of the life insurance reserves so described.

The above sum must be reduced by the amount of the adjustment for policy loans provided in paragraph (2) of subsection (b). For the purposes of (D) the dividends to policyholders shall be construed as those paid, or those declared, according to the method of accounting regularly employed in keeping the books of the insurance company.

Paragraph (2) of subsection (b) provides for the application of an adjustment which will reduce the amount computed under paragraph (1) by an amount equal to the mean of the aggregates (at the beginning and end of the taxable year) of the outstanding policy loans with respect to contracts for which life insurance reserves are maintained, multiplied by the average rate of interest applicable to life insurance reserves.

Paragraph (3) of subsection (b) permits an insurance company, whose reserve and other policy liability deduction has been limited by paragraph (1) of this subsection, to take as a deduction an amount corresponding to the dividends received deductions provided in sections 243, 244, and 245 of the 1954 Code. Specifically, subparagraph (A) of the paragraph provides that where paragraph (1) of subsection (b) reduces the reserve and other policy liability deduction allowed by section 804 or 812, an insurance company will be allowed, in computing life insurance taxable income under section 802 (b) or 811 (b), an additional deduction corresponding to the dividends received deduction computed under the provisions of subparagraph (B).

The deduction computed under subparagraph (B) is to be an amount which bears the same ratio to the total intercorporate dividends received deductions provided in sections 243, 244, and 245 as the net investment income reduced as provided in the next paragraph, bears to the total net investment income.

In the above-mentioned computation, the net investment income is reduced by the sum of the net investment income allocable to nonlife

insurance reserves (or for the purposes of sec. 811 (d), the amount of the adjustment for certain reserves provided in sec. 813), and 100/85 of the maximum limitation determined under paragraphs (1) and (2) of subsection (b).

The provisions of paragraph (3) may be illustrated by the following example:

Company A (a life insurance company organized in 1945) has investment income of $300,000. In applying subsection (b) of section 804, the company has—

Required interest, $42,000, times 2	$84,000
Interest paid	1,000
Maximum reserve and other policy liability deduction	$85,000

Assuming the investment income allocable to non-life insurance reserves was $100,000 and the deduction under sections 243, 244, and 245 was $6,000, the total deduction for dividends received would be $4,000 determined in the following manner:

Deduction under 802 (f), $6,000 $\left(\frac{100,000}{300,000}\right)$	$2,000
Under 804 (b) (3), $6,000 $\left(\frac{300,000-100,000-\frac{100}{85}(85,000)}{300,000}\right)$	2,000
Total deduction	4,000

The application of the preceding subsection may be illustrated by the following example:

The B life insurance company has net investment income of 300, of which 100 is allocable to non-life insurance reserves. The reserve and other policy liability deduction as computed under subsection (a) of section 804 is 87½ percent of 200 or 175. The company must then determine its maximum reserve and other policy liability deduction. The first element of this maximum relates to its interest on life insurance reserves which is computed as follows:

	Reserves, Jan. 1	Reserves, Dec. 31	Reserves, mean of year	Amount of required interest
Reserves at 2½ percent	900	1,100	1,000	25
Reserves at 3 percent	1,050	950	1,000	30
Total			2,000	55

The calculation of the maximum will include twice the sum of 25 and 30 or 110. There is also added interest paid on borrowings and on contracts not involving contingencies, which is 20, and dividends paid to policyholders of 10.

From 140 (the sum of 110, 20, and 10) there must be subtracted the adjustment for loans on policies involving life insurance reserves. The amount of such policy loans is 150 at the beginning of the year and 250 at the end or 200 as the mean. The adjustment for policy loans is determined by first dividing the reserve interest required (55) by the sum of the means of the life insurance reserves (2,000). This average rate is thus 2.75 percent. This rate multiplied by the mean policy loans of 200 yields an adjustment of 5.5. Thus the reserve

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and other policy liability deduction for the B company will be limited by subsection (b) and will be 140 less 5.5, or 134.5.

Section 804 (c) defines the term "qualified reserves" (as used in subpart A) as the sum of the following items:

(1) Life insurance reserves (as defined in sec. 801 (b)) plus 7 percent of that portion of such reserves as are computed on a preliminary term basis.

(2) The "nonlife insurance reserves" (defined in sec. 804 (d) (2)).

(3) The amounts (discounted at the rates assumed by the company) necessary to satisfy certain obligations under insurance and annuity contracts (including contracts supplementary thereto). Such amounts are to be included only if the above-mentioned obligations, when satisfied, will reflect an increment in the nature of interest, and such obligations do not involve life, health, or accident contingencies at the time with respect to which the computation is made under paragraph (3) of section 804 (c).

(4) The amounts held at the end of the taxable year as reserves for dividends to policyholders, the payment of which dividends is deferred for at least 5 years from the date of the policy contract. Such amount shall not be deemed to include dividends payable during the year following the taxable year for which such computation is made.

(5) The dividend accumulations, and other amounts, held at interest in connection with insurance or annuity contracts, including supplementary contracts.

(6) Premiums and annuity considerations received in advance, and liabilities for premium deposit funds and for annuity consideration deposit funds.

In applying subsection (c), the same item shall only be counted once. With the exception of paragraph (4) of section 804 (c), the amount of any reserves (or portion thereof) for any taxable year (as used in sec. 804) shall be the mean of such reserves (or portion thereof) at the beginning and end of the taxable year.

Subsection (d) of section 804 provides for the definition of non-life insurance reserves and for the method of determining the amount of the net investment income allocable to such reserves.

Paragraph (1) of subsection (d) provides for the determination of the net investment income allocable to non-life insurance reserves as that amount which bears the same ratio to the net investment income as such reserves bear to the qualified reserves. Paragraph (2) of the subsection defines non-life insurance reserves as the sum of the unearned premiums and the unpaid losses (whether or not ascertained) on contracts other than life insurance, annuity, and noncancelable health and accident insurance contracts, except any unearned premiums and unpaid losses which are included in the life insurance reserves as defined in section 801 (b). The parenthetical phrase "whether or not ascertained" is intended as continuation of the treatment accorded unpaid losses under present law. The unearned premiums shall not be considered to be less than 25 percent of the net premiums written during the taxable year on such contracts.

Paragraph (3) of subsection (d) provides for an adjustment (under regulations prescribed by the Secretary or his delegate) with respect to certain non-life insurance contracts that do have some life insurance reserves.

Section 805. Special interest deduction

Section 805 provides for a special interest deduction (comparable to the reserve interest credit provided in sec. 805 (b) of the Internal Revenue Code of 1954) to be used when computing the tax imposed by section 802. The deduction is provided for life insurance companies whose net investment incomes are insufficient or barely sufficient to meet their required interest commitments.

The deduction is determined as under present law, with some minor changes. Under present law if the ratio of adjusted taxable income to required interest is less than 1.00 the company receives an additional deduction of 50 percent of the income subject to the life insurance tax. To conform the numerator of this ratio to the current bill an adjusted net investment income is used described in subsection (b). To retain the effect of the provision under present law the ratio is multiplied by the net investment income reduced by the sum of net investment income allocable to non-life insurance reserves and the reserve and other policy liability deduction. As under present law reduced allowances are made where the ratio is between 1.00 and 1.05.

A minor change in the definition of required interest is made. Under present law the required interest with respect to the reserve for deferred dividends is deemed to be 2 percent. Under the bill the actual interest rate is used.

SUBPART B. 1942 FORMULA

Sections 811, 812, and 813 provide that after 1955, certain provisions of the Revenue Act of 1942 are to be combined with certain of the new provisions set forth in subpart A. The particular 1942 provisions that would come back into operation would be the method of determining the reserve and other policy liability deduction by reference to the Secretary's ratio (sec. 812) and the computation of income on non-life insurance business by means of applying 3¼ percent to certain reserves (sec. 813).

The features of subpart A which are made permanent are:

(1) The new definitions relating to investment income;
(2) Denial of the dividends received credit;
(3) The maximum limit on the reserve and other policy liability deduction;
(4) The adjustment for policy loans in the 50 percent test used to define a life insurance company; and
(5) The special interest deduction.

Section 811. Tax imposed

Subsections (a) and (b) of section 811 are in substance the same as section 802 (a) of the Internal Revenue Code of 1954, except that the special interest deduction is allowed.

Subsection (c) of section 811 provides an adjustment in computing the special interest deduction. Under this subsection, the computations under the specified provisions of the new section 805 will be made by substituting the amount of the adjustment for certain reserves provided in section 813 for the net investment income allocable to non-life insurance reserves. For purposes of section 805 (b), the substitution will be made after the net investment income has been computed without the reduction for wholly exempt interest. Under

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the amendment made by your committee, in applying section 805 (b) (2) with respect to subpart B, the amount taken into account will be 50 percent of the amount of the adjustment for certain reserves, in lieu of 50 percent of the net investment income allocable to non-life insurance reserves.

Section 812. Reserve and other policy liability deduction

Section 812 is in substance the same as section 804 (a) of the Internal Revenue Code of 1954. The term "net investment income" is substituted for the term "taxable income" wherever such term is used in section 804 of the 1954 Code.

Subsection (b) contains definitions corresponding to the definitions found in subsections (c), (d), (e), and (f) of section 803 of the 1954 Code.

Subsection (c) applies the same maximum limit to the reserve and other policy liability deduction allowed by section 812 (a) as the maximum limit applied by section 804 (b).

Section 813. Adjustment for certain reserves

Section 813, in substance the same as section 806 of the Internal Revenue Code of 1954, provides for an adjustment for certain reserves in the case of a life insurance company writing contracts other than life insurance, annuity, and noncancelable health and accident insurance contracts (including life insurance or annuity contracts combined with noncancelable health and accident insurance).

SUBPART C—MISCELLANEOUS PROVISIONS

Section 816. Foreign life insurance companies

Section 816 is in substance the same as section 807 of the Internal Revenue Code of 1954.

Section 817. Denial of double deductions

Section 817 applies to part I the prohibition against double deductions found in section 803 (j) of the Internal Revenue Code of 1954.

Section 818. Certain new insurance companies

Section 818 (a) provides an alternative tax treatment for a life insurance company if the taxable year begins not more than 4 years after the first day on which the company was authorized to do business as an insurance company. If an insurance company so qualifies for the taxable year, its life insurance taxable income (for purposes of subpart A) shall not exceed the amount of the net gain from operations (after dividends to policyholders and before Federal income tax) reduced by the net investment income allocable to non-life insurance reserves and the special deduction for dividends received provided in subsection (c). Similarly, if a company so qualifies for purposes of subpart B, its life insurance company taxable income shall not exceed the amount of the net gain from operations (after dividends to policyholders and before Federal income tax) reduced by the special deduction for dividends received provided in subsection (c). Subsection (a) further provides that the net gain from operations (after dividends for policyholders and before Federal income tax) mentioned above shall be computed in the manner required for purposes of the annual statement approved by the National Convention of Insurance Commissioners.

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Subsection (b) limits the relief to new insurance companies under the alternative tax treatment of this section by providing that the section shall not reduce the tax for any taxable year below the amount which (but for this section) would be imposed by section 802 or section 811 (as the case may be) computed without the limitation upon the reserve and other policy liability deduction contained in section 804 (b) or section 812 (c).

Subsection (c) provides the special rule for the dividends-received deduction referred to in paragraph (1) (B) (ii) and paragraph 2 of subsection (a). The deduction shall be an amount computed under section 804 (b) (3), except that for the purposes of such computation, the maximum limitation referred to in section 804 (b) (3) (B) (ii) shall be—

(1) in the case where the tax imposed by section 802 applies, the amount by which the net investment income (reduced by the net investment income allocable to non-life insurance reserves) exceeds the net gain from operations (after dividends to policyholders and before Federal income tax) reduced by the net investment income allocable to non-life insurance reserves, or

(2) in the case where the tax imposed by section 811 applies, the amount by which the sum of the net investment income and the amount of the adjustment for certain reserves (provided in sec. 813) exceeds the net gain from operations (after dividends to policyholders and before Federal income tax).

The application of section 818 is shown be following example:

The A life insurance company, which received its authorization to do business as an insurance company in 1953, in the taxable year 1955 received net investment income of $300,000, of which $200,000 was dividends (thus, the deduction that would be allowed by secs. 243, 244, and 245 is $170,000). There were no nonlife insurance reserves. Its required interest for 1955 was $42,500. Its net gain from operations after dividends to policyholders and before Federal income tax was $200,000.

Under the provisions of section 802 (b) and section 804 the life insurance taxable income is computed as follows:

Net investment income		$300,000
Maximum reserve and other policy liability deduction minus required interest ($42,500) times 2	$85,000	
Dividends-received deduction under sec. 804 (b) (3): $\frac{300{,}000-\frac{100}{85}(85{,}000)}{300{,}000}\times(170{,}000)$	113,333	
		198,333
Life insurance taxable income		101,667

Because the A company qualifies under the provisions of section 818 it will compute its life insurance taxable income as follows:

Net gain from operations (after dividends to policyholders and before Federal income tax)		$200,000
Dividends-received deduction provided by sec. 818 (c): $\frac{300{,}000-\frac{100}{85}(100{,}000)}{300{,}000}\times(170{,}000)$		103,333
Life insurance taxable income		96,667

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The 100,000 which was multiplied by 100/85 is the net investment income ($300,000) less the net gain from operations, and so forth ($200,000).

Subsection (b) provides that in no case shall the life insurance taxable income be less than the net investment income reduced by 87½ percent (85 percent of the amount over $1 million).

SECTION 3. ADJUSTMENT TO INVESTMENT INCOME OF INSURANCE COMPANIES OTHER THAN LIFE

Subsection (a) of section 3 contains amendments to part II of subchapter L of chapter 1 of the Internal Revenue Code of 1954 (relating to mutual insurance companies other than life). These amendments conform the investment income which is used as a tax base in the case of these mutual insurance companies to the revised concept of investment income which will apply to life insurance companies under the new part I. The principal changes are the express inclusion of royalties, and the income from a trade or business other than the insurance business together with the deductions attributable thereto. No change is made in the availability of the deduction for dividends received.

Subsection (b) of section 3 contains amendments to part III of subchapter L (relating to stock insurance companies other than life). Since these companies are in effect, taxed on the regular corporate basis, no change was necessary in the definition of their investment income. However, technical amendments were made to permit them to take a deduction for depletion (which was not specifically allowed by the Internal Revenue Code of 1954), to correct the special capital loss deduction provisions, and to correct a cross reference to the definition of life insurance reserves.

SECTION 4. ANNUAL ACCOUNTING PERIOD OF INSURANCE COMPANIES TO BE A CALENDAR YEAR

This section adds section 843 to part IV of subchapter L of chapter 1 of the Internal Revenue Code of 1954. Section 843 provides that for the purposes of subtitle A of the Internal Revenue Code of 1954 the annual accounting period for each insurance company subject to a tax imposed by subchapter L shall be the calendar year.

SECTION 5. TECHNICAL AMENDMENTS

This section makes certain technical amendments to provisions of the Internal Revenue Code of 1954 outside of the first three parts of subchapter L to conform those provisions to the changes in subchapter L made by sections 2 and 3 of the bill.

Paragraph (2) of this section amends paragraph (16) of section 501 (c) of the Internal Revenue Code, which provides an exemption from tax for certain small mutual insurance companies and associations. Under present law, such a company or association is exempt if the gross amount received during the taxable year from interest, dividends, rents, and premiums (including deposits and assessments) does not exceed $75,000. Under the amendment, the broader concept of the gross investment income contained in the bill is substituted for interest, dividends, and rents.

SECTION 6. EFFECTIVE DATE

Section 6 provides that the amendments made by the bill shall apply only to taxable years beginning after December 31, 1954.

SECTION 7. SAVINGS PROVISIONS

Section 7 provides that no addition to the tax shall be made under section 6655 of the 1954 Code with respect to the estimated tax for a taxable year beginning in 1955 for any taxpayer subject to tax under the provisions of section 802 or 807 of the 1954 Code (as such sections were in effect before the enactment of H. R. 7201). In the case of a taxpayer subject to tax under section 821 of the 1954 Code (imposing a tax on certain mutual insurance companies) any addition to the tax under section 6655 of the 1954 Code with respect to estimated tax for a taxable year beginning in 1955 shall in no case be larger than such addition would have been if this act had not been enacted.

Changes in Existing Law

In compliance with subsection 4 of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill are shown as follows (existing law proposed to be omitted is enclosed in black brackets; new matter is printed in italics; existing law in which no changes are proposed is shown in roman):

Internal Revenue Code

CHAPTER 1—NORMAL TAXES AND SURTAXES

* * * * * * *

SEC. 316. DIVIDEND DEFINED.

(a) General Rule.—* * *

* * * * * * *

(b) Special Rules—

(1) Certain insurance company dividends.—The definition in subsection (a) shall not apply to the term "dividend" as used in [sections 803 (e), 821 (a) (2), 823 (2), and 832 (c) (11) (where the reference is to dividends of insurance companies paid to policyholders)] *subchapter L in any case where the reference is to dividends of insurance companies paid to policyholders as such.*

* * * * * * *

SEC. 501. EXEMPTION FROM TAX ON CORPORATIONS, CERTAIN TRUSTS, ETC.

(a) Exemption From Taxation. * * *

* * * * * * *

(c) List of Exempt Organizations.—The following organizations are referred to in subsection (a):

(1) * * *

* * * * * * *

(15) Mutual insurance companies or associations other than life or marine (including interinsurers and reciprocal underwriters) if the gross amount received during the taxable year from [interest, dividends, rents,] *the items described in section 822 (b) (other than paragraph (1) (D) thereof)* and premiums (including deposits and assessments) does not exceed $75,000.

* * * * * * *

SEC. 594. ALTERNATIVE TAX FOR MUTUAL SAVINGS BANKS CONDUCTING LIFE INSURANCE BUSINESS.

(a) Alternative Tax.—In the case of a mutual savings bank not having capital stock represented by shares, authorized under State law to engage in the busi-

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ness of issuing life insurance contracts, and which conducts a life insurance business in a separate department the accounts of which are maintained separately from the other accounts of the mutual savings bank, there shall be imposed in lieu of the taxes imposed by section 11 or section 1201 (a), a tax consisting of the sum of the partial taxes determined under paragraphs (1) and (2):

(1) * * *

(2) a partial tax computed on [the taxable income (as defined in section 803)] *the income* of the life insurance department determined without regard to any items of gross income or deductions not properly allocable to such department, at the rates and in the manner provided in subchapter L (sec. 801 and following) with respect to life insurance companies.

* * * * * * *

Subchapter L—Insurance Companies

Part I. Life insurance companies.
Part II. Mutual insurance companies (other than life or marine or fire insurance companies issuing perpetual policies).
Part III. Other insurance companies.
Part IV. Provisions of general application.

[PART I—LIFE INSURANCE COMPANIES

[Sec. 801. Definition of life insurance company.
[Sec. 802. Imposition of tax.
[Sec. 803. Other definitions and rules.
[Sec. 804. Reserve and other policy liability deduction.
[Sec. 805. 1954 life insurance company taxable income.
[Sec. 806. Adjustment for certain reserves.
[Sec. 807. Foreign life insurance companies.

[SEC. 801. DEFINITION OF LIFE INSURANCE COMPANY

[For purposes of this subtitle, the term "life insurance company" means an insurance company which is engaged in the business of issuing life insurance and annuity contracts (either separately or combined with health and accident insurance), or noncancellable contracts of health and accident insurance, if its life insurance reserves (as defined in section 803 (b)), plus unearned premiums and unpaid losses on noncancellable life, health, or accident policies not included in life insurance reserves, comprise more than 50 percent of its total reserves. For purposes of this section, the term "total reserves" means life insurance reserves, unearned premiums and unpaid losses not included in life insurance reserves, and all other insurance reserves required by law. A burial or funeral benefit insurance company engaged directly in the manufacture of funeral supplies or the performance of funeral services shall not be taxable under section 802 but shall be taxable under section 821 or section 831.

[SEC. 802. IMPOSITION OF TAX.

[(a) In General.—Except as otherwise provided in subsection (b), there shall be imposed for each taxable year on the life insurance company taxable income of every life insurance company a tax consisting of a normal tax and a surtax computed as provided in section 11. For purposes of such tax, the term "life insurance company taxable income" means the taxable income (as defined in section 803 (g)) minus the reserve and other policy liability deduction provided in section 804 and plus the amount of the adjustment for certain reserves provided in section 806. For purposes of the surtax, such taxable income shall be computed without regard to the deduction provided in section 242 for partially tax-exempt interest.

[(b) Taxable Years Beginning in 1954.—In lieu of the tax imposed by subsection (a) there shall be imposed, for taxable years beginning in 1954, on the 1954 life insurance company taxable income (as defined in section 805) of every life insurance company a tax equal to the sum of the following:

[(1) 3¾ percent of the amount thereof not in excess of $200,000, plus
[(2) 6½ percent of the amount thereof in excess of $200,000.

[SEC. 803. OTHER DEFINITIONS AND RULES.

[(a) Application of Section; Gross Income.—

[(1) Application.—The definitions and rules contained in this section shall apply only in the case of life insurance companies.

[(2) Gross income.—The term "gross income" means the gross amount of income received or accrued during the taxable year from interest, dividends, and rents.

[(b) LIFE INSURANCE RESERVES.—The term "life insurance reserves" means amounts which are computed or estimated on the basis of recognized mortality or morbidity tables and assumed rates of interest, and which are set aside to mature or liquidate, either by payment or reinsurance, future unaccrued claims arising from life insurance, annuity, and noncancellable health and accident insurance contracts (including life insurance or annuity contracts combined with noncancellable health and accident insurance) involving, at the time with respect to which the reserve is computed, life, health, or accident contingencies. Such life insurance reserves, except in the case of policies covering life, health, and accident insurance combined in one policy issued on the weekly premium payment plan, continuing for life and not subject to cancellation and except as hereinafter provided in the case of assessment life insurance, must also be required by law. In the case of an assessment life insurance company or association, the term "life insurance reserves" includes sums actually deposited by such company or association with State or Territorial officers pursuant to law as guaranty or reserve funds, and any funds maintained, under the charter or articles of incorporation or association (or bylaws approved by a State insurance commissioner) of such company or association, exclusively for the payment of claims arising under certificates of membership or policies issued on the assessment plan and not subject to any other use.

[(c) ADJUSTED RESERVES.—The term "adjusted reserves" means life insurance reserves plus 7 percent of that portion of such reserves as are computed on a preliminary term basis.

[(d) RESERVE EARNINGS RATE.—The term "reserve earnings rate" means a rate computed by adding 2.1125 percent (65 percent of 3¼ percent) to 35 percent of the average rate of interest assumed in computing life insurance reserves. Such average rate shall be calculated by multiplying each assumed rate of interest by the means of the amounts of the adjusted reserves computed at that rate at the beginning and end of the taxable year and dividing the sum of the products by the mean of the total adjusted reserves at the beginning and end of the taxable year.

[(e) RESERVE FOR DEFERRED DIVIDENDS.—The term "reserve for deferred dividends" means sums held at the end of the taxable year as a reserve for dividends (other than dividends payable during the year following the taxable year) the payment of which is deferred for a period of not less than 5 years from the date of policy contract.

[(f) INTEREST PAID.—The term "interest paid" means—

[(1) All interest paid or accrued within the taxable year on indebtedness, except on indebtedness incurred or continued to purchase or carry obligations (other than obligations of the United States issued after September 24, 1917, and originally subscribed for by the taxpayer) the interest upon which is wholly exempt from taxation under this chapter, and

[(2) All amounts in the nature of interest, whether or not guaranteed, paid or accrued within the taxable year on insurance or annuity contracts (or contracts arising out of insurance or annuity contracts) which do not involve, at the time of payment or accrual, life, health, or accident contingencies.

[(g) TAXABLE INCOME.—The term "taxable income" means the gross income less the following deductions:

[(1) TAX-FREE INTEREST.—The amount of interest received or accrued during the taxable year which under section 103 is excluded from gross income.

[(2) INVESTMENT EXPENSES.—Investment expenses paid or incurred during the taxable year. If any general expenses are in part assigned to or included in the investment expenses, the total deduction under this paragraph shall not exceed one-fourth of 1 percent of the mean of the book value of the invested assets held at the beginning and end of the taxable year plus one-fourth of the amount by which taxable income (computed without any deduction for investment expenses allowed by this paragraph, for tax-free interest allowed by paragraph (1), or for partially tax-exempt interest and dividends received allowed by paragraph (5)) exceeds 3¾ percent of the book value of the mean of the invested assets held at the beginning and end of the taxable year.

[(3) REAL ESTATE EXPENSES.—Taxes and other expenses paid or accrued during the taxable year exclusively on or with respect to the real estate owned by the company, not including taxes assessed against local benefits of a kind tending to increase the value of the property assessed, and not including any amount paid out for new buildings, or for permanent improvements or betterments made to increase the value of any property. The deduction allowed

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by this paragraph shall be allowed in the case of taxes imposed on a shareholder of a company on his interest as shareholder, which are paid or accrued by the company without reimbursement from the shareholder, but in such cases no deduction shall be allowed the shareholder for the amount of such taxes.

[(4) DEPRECIATION.—The depreciation deduction allowed by section 167.

[(5) SPECIAL DEDUCTIONS.—The special deductions allowed by part VIII of subchapter B (except section 248).

[(h) RENTAL VALUE OF REAL ESTATE.—The deduction under subsection (g) (3) and (4) on account of any real estate owned and occupied in whole or in part by a life insurance company shall be limited to an amount which bears the same ratio to such deduction (computed without regard to this subsection) as the rental value of the space not so occupied bears to the rental value of the entire property.

[(i) AMORTIZATION OF PREMIUM AND ACCRUAL OF DISCOUNT.—The gross income, the deduction provided in subsection (g) (1), and the deduction allowed by section 242 (relating to partially tax-exempt interest) shall each be decreased to reflect the appropriate amortization of premium and increased to reflect the appropriate accrual of discount attributable to the taxable year on bonds, notes, debentures, or other evidences of indebtedness held by a life insurance company. Such amortization and accrual shall be determined—

[(1) in accordance with the method regularly employed by such company, if such method is reasonable, and

[(2) in all other cases, in accordance with regulations prescribed by the Secretary or his delegate.

[(j) DOUBLE DEDUCTIONS.—Nothing in this part shall permit the same item to be deducted more than once.

[SEC. 804. RESERVE AND OTHER POLICY LIABILITY DEDUCTION.

[(a) IN GENERAL.—For purposes of this subpart, the term "reserve and other policy liability deduction" means an amount computed by multiplying the taxable income by a figure, to be determined and proclaimed by the Secretary or his delegate for each taxable year. This figure shall be based on such data with respect to life insurance companies for the preceding taxable year as the Secretary or his delegate considers representative and shall be computed in accordance with the following formula: The ratio which a numerator comprised of the aggregate of the sums of—

[(1) 2 p rcent of the reserves for deferred dividends,

[(2) interest paid, and

[(3) the product of—

[(A) the mean of the adjusted reserves at the beginning and end of the taxable year and

[(B) the reserve earnings rate,

bears to a denominator comprised of the aggregate of the excess of taxable incomes (computed without any deduction for tax-free interest, partially tax-exempt interest, or dividends received) over the adjustment for certain reserves provided in section 806.

[(b) SURTAX COMPUTATION.—In determining the life insurance company taxable income for purposes of the surtax, the taxable income to be multiplied by the figure determined and proclaimed under subsection (a) shall be computed without regard to the deduction provided in section 242 for partially tax-exempt interest.

[SEC. 805. 1954 LIFE INSURANCE COMPANY TAXABLE INCOME.

[(a) DEFINITION.—For purposes of section 802 (b), the term "1954 life insurance company taxable income" means the taxable income (as defined in section 803 (g)), plus 8 times the amount of the adjustment for certain reserves provided in section 806, and minus the reserve interest credit, if any, provided in subsection (b) of this section.

[(b) RESERVE INTEREST CREDIT.—For purposes of subsection (a), the reserve interest credit shall be an amount determined as follows:

[(1) Divide the amount of the adjusted taxable income (as defined in subsection (c)) by the amount of the required interest (as defined in subsection (d)).

[(2) If the quotient obtained in paragraph (1) is 1.05 or more, the reserve interest credit shall be zero.

[(3) If the quotient obtained in paragraph (1) is 1.00 or less, the reserve interest credit shall be an amount equal to 50 percent of the taxable income.

[(4) If the quotient obtained in paragraph (1) is more than 1.00 but less than 1.05, the reserve interest credit shall be the amount obtained by multi-

plying the taxable income by 10 times the difference between the figures 1.05 and such quotient.

[(c) ADJUSTED TAXABLE INCOME.—For purposes of subsection (b) (1), the term "adjusted taxable income" means the taxable income (computed without the deductions provided in section 803 (g) (1) or (5)) minus 50 percent of the amount of the adjustment for certain reserves provided in section 806.

[(d) REQUIRED INTEREST.—For purposes of subsection (b) (1), the term "required interest" means the total of—

[(1) the sum of the amounts obtained by multiplying—

[(A) each rate of interest assumed in computing the taxpayer's life insurance reserves by

[(B) the means of the amounts of the taxpayer's adjusted reserves computed at that rate at the beginning and end of the taxable year,

[(2) 2 percent of the reserve for deferred dividends, and

[(3) interest paid.

[SEC. 806. ADJUSTMENT FOR CERTAIN RESERVES.

[In the case of a life insurance company writing contracts other than life insurance or annuity contracts (either separately or combined with noncancellable health and accident insurance), the term "adjustment for certain reserves" means an amount equal to 3½ percent of the unearned premiums and unpaid losses on such other contracts which are not included in life insurance reserves (as defined in section 803 (b)). For purposes of this section, such unearned premiums shall not be considered to be less than 25 percent of the net premiums written during the taxable year on such other contracts.

[SEC. 807. FOREIGN LIFE INSURANCE COMPANIES.

[(a) CARRYING ON UNITED STATES INSURANCE BUSINESS.—A foreign life insurance company carrying on a life insurance business within the United States, if with respect to its United States business it would qualify as a life insurance company under section 801, shall be taxable in the same manner as a domestic life insurance company; except that the determinations necessary for purposes of this subtitle shall be made on the basis of the income, disbursements, assets, and liabilities reported in the annual statement for the taxable year of the United States business of such company on the form approved for life insurance companies by the National Association of Insurance Commissioners.

[(b) NO UNITED STATES INSURANCE BUSINESS.—Foreign life insurance companies not carrying on an insurance business within the United States shall not be taxable under this section but shall be taxable as other foreign corporations.]

PART I—LIFE INSURANCE COMPANIES

Subpart A. 1955 formula.
Subpart B. 1942 formula.
Subpart C. Miscellaneous provisions.

Subpart A—1955 Formula

Sec. 801. Definition of life insurance company.
Sec. 802. Tax imposed for 1955.
Sec. 803. Income and deductions.
Sec. 804. Reserve and other policy liability deduction.
Sec. 805. Special interest deduction.

SEC. 801. DEFINITION OF LIFE INSURANCE COMPANY.

(a) LIFE INSURANCE COMPANY DEFINED.—For purposes of this subtitle, the term "life insurance company" means an insurance company which is engaged in the business of issuing life insurance and annuity contracts (either separately or combined with health and accident insurance), or noncancellable contracts of health and accident insurance, if—

(1) its life insurance reserves (as defined in subsection (b)), plus

(2) unearned premiums and unpaid losses on noncancellable life, health, or accident policies not included in life insurance reserves,

comprise more than 50 percent of its total reserves (as defined in subsection (c)).

(b) LIFE INSURANCE RESERVES DEFINED.—

(1) IN GENERAL.—For purposes of this part, the term "life insurance reserves" means amounts—

(A) which are computed or estimated on the basis of recognized mortality or morbidity tables and assumed rates of interest, and

(B) which are set aside to mature or liquidate, either by payment or reinsurance, future unaccrued claims arising from life insurance, annuity,

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and noncancellable health and accident insurance contracts (including life insurance or annuity contracts combined with noncancellable health and accident insurance) involving, at the time with respect to which the reserve is computed, life, health, or accident contingencies.

(2) RESERVES MUST BE REQUIRED BY LAW.—Except—

(A) in the case of policies covering life, health, and accident insurance combined in one policy issued on the weekly premium payment plan, continuing for life and not subject to cancellation, and

(B) as provided in paragraph (3),

in addition to the requirements set forth in paragraph (1), life insurance reserves must be required by law.

(3) ASSESSMENT COMPANIES.—In the case of an assessment life insurance company or association, the term "life insurance reserves" includes—

(A) sums actually deposited by such company or association with State or Territorial officers pursuant to law as guaranty or reserve funds, and

(B) any funds maintained, under the charter or articles of incorporation or association (or bylaws approved by a State insurance commissioner) of such company or association, exclusively for the payment of claims arising under certificates of membership or policies issued on the assessment plan and not subject to any other use.

(4) AMOUNT OF RESERVE.—For purposes of this subsection and subsection (c) the amount of any reserve (or portion thereof) for any taxable year shall be the mean of such reserve (or portion thereof) at the beginning and end of the taxable year.

(c) TOTAL RESERVES DEFINED.—For purposes of subsection (a), the term "total reserves" means—

(1) life insurance reserves,

(2) unearned premiums and unpaid losses not included in life insurance reserves, and

(3) all other insurance reserves required by law.

(d) ADJUSTMENTS IN RESERVES FOR POLICY LOANS.—For purposes only of determining under subsection (a) whether or not an insurance company is a life insurance company, the life insurance reserves, and the total reserves, shall each be reduced by an amount equal to the mean of the aggregates, at the beginning and end of the taxable year, of the policy loans outstanding with respect to contracts for which life insurance reserves are maintained.

(e) BURIAL AND FUNERAL BENEFIT INSURANCE COMPANIES.—A burial or funeral benefit insurance company engaged directly in the manufacture of funeral supplies or the performance of funeral services shall not be taxable under this part but shall be taxable under section 821 or section 831.

SEC. 802. TAX IMPOSED FOR 1955.

(a) TAX IMPOSED.—A tax is hereby imposed for each taxable year beginning in 1955 on the income of every life insurance company. Except as provided in subsection (c), such tax shall consist of a normal tax (computed under section 11 (b)) and a surtax (computed under section 11 (c) on the sum of—

(1) the life insurance taxable income (as defined in subsection (b)), plus

(2) the non-life insurance taxable income (as defined in subsection (f)).

(b) LIFE INSURANCE TAXABLE INCOME DEFINED.—For purposes of this subpart, the term "life insurance taxable income" means the net investment income (as defined in section 803 (c)), minus the sum of—

(1) the net investment income allocable to non-life insurance reserves (determined under section 804 (d)),

(2) the reserve and other policy liability deduction (determined under section 804), and

(3) the special interest deduction, if any, allowed by section 805.

(c) ALTERNATIVE TAX IN THE CASE OF COMPANIES HAVING NON-LIFE INSURANCE RESERVES.—

(1) IN GENERAL.—In the case of a life insurance company which has non-life insurance reserves, the tax imposed by subsection (a) of this section for any taxable year beginning in 1955 shall be the tax computed under such subsection (or under section 1201 (a) if applicable) or the tax computed under paragraph (2) of this subsection, whichever is the greater.

(2) ALTERNATIVE 1 PERCENT TAX ON NON-LIFE INSURANCE BUSINESS.—The tax referred to in paragraph (1) is a tax equal to the sum of the following:

(A) A partial tax consisting of a normal tax (computed under section 11 (b) and a surtax (computed under section 11 (c)) on the life insurance taxable income.

(B) A partial tax consisting of—

(i) 1 percent of the amount which bears the same ratio to the gross investment income (reduced by the deduction for wholly-exempt interest allowed by section 803 (c) (1) as the non-life insurance reserves bear to the qualified reserves (determined under section 804 (c)), plus

(ii) 1 percent of the excess of the amount by which the net premiums on contracts meeting the requirements of section 804 (d) (2) (A) exceed the dividends to policyholders on such contracts. For purposes of this clause, net premiums, and dividends to policyholders, shall be computed in the manner provided in section 823.

(d) DEDUCTIONS FOR PARTIALLY TAX-EXEMPT INTEREST.—

(1) COMPUTATIONS UNDER SUBSECTION (a).—For purposes of computing the normal tax under subsection (a), there shall be allowed as a deduction an amount which bears the same ratio to the amount of the deduction provided by section 242 for partially tax-exempt interest as (A) the sum of the life insurance taxable income and the net investment income allocable to non-life insurance reserves bears to (B) the net investment income.

(2) COMPUTATIONS UNDER SUBSECTION (c) (2) (A).—In computing the normal tax for purposes of subsection (c) (2) (A), there shall be allowed as a deduction an amount which bears the same ratio to the amount of the deduction provided by section 242 for partially tax-exempt interest as (A) the life insurance taxable income bears to (B) the net investment income.

(e) ALTERNATIVE TAX ON CAPITAL GAINS.—In the case of a life insurance company which has non-life insurance reserves, the term "excess" used in section 1201 (a) (relating to alternative tax on capital gains of corporations) means, for purposes of section 1201 (a), an amount which bears the same ratio to the excess described in such section as the non-life insurance reserves (determined under section 804 (d) bear to the qualified reserves (determined under section 804 (c). For purposes of any such computation, a net capital loss for any taxable year beginning before January 1, 1955, shall not be taken into account.

(f) NON-LIFE INSURANCE TAXABLE INCOME DEFINED.—For purposes of this subpart, the term "non-life insurance taxable income" means the net investment income allocable to non-life insurance reserves (determined under section 804 (d))—

(1) increased by an amount which bears the same ratio to the net capital gain as the non-life insurance reserves bear to the qualified reserves; and

(2) decreased by an amount which bears the same ratio to the total of the deductions provided in sections 243, 244, and 245 as the non-life insurance reserves bear to the qualified reserves.

In computing a net capital gain for purposes of paragraph (1) of this subsection, a net capital loss for any taxable year beginning before January 1, 1955, shall not be taken into account.

SEC. 803. INCOME AND DEDUCTIONS.

(a) APPLICATION OF SECTION.—The definitions and rules contained in this section shall apply only in the case of life insurance companies.

(b) GROSS INVESTMENT INCOME.—For purposes of this part, the term "gross investment income" means the sum of the following:

(1) The gross amount of income received or accrued from—

(A) interest, dividends, rents, and royalties,

(B) the entering into of any lease, mortgage, or other instrument or agreement from which the life insurance company derives interest, rents, or royalties, and

(C) the alteration or termination of any instrument or agreement described in subparagraph (B).

(2) The gross income from any trade or business (other than an insurance business) carried on by the life insurance company, or by a partnership of which the life insurance company is a partner. In computing gross income under this paragraph, there shall be excluded any item described in paragraph (1).

In computing gross investment income under this subsection, there shall be excluded any gain from the sale or exchange of a capital asset, and any gain considered as gain from the sale or exchange of a capital asset.

(c) NET INVESTMENT INCOME DEFINED.—The term "net investment income" means the gross investment income less the following deductions:

(1) TAX-FREE INTEREST.—The amount of interest received or accrued during the taxable year which under section 103 is excluded from gross income.

(2) INVESTMENT EXPENSES.—

(A) Investment expenses paid or accrued during the taxable year.

(B) If any general expenses are in part assigned to or included in the investment expenses, the total deduction under this paragraph shall not exceed—

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(i) one-fourth of 1 percent of the mean of the book value of the invested assets held at the beginning and end of the taxable year, plus

(ii) one-fourth of the amount by which the net investment income (computed without any deduction for investment expenses allowed by this paragraph, or for tax-free interest allowed by paragraph (1)) exceeds 3¾ percent of the book value of the mean of the invested assets held at the beginning and end of the taxable year.

(3) REAL ESTATE EXPENSES.—Taxes (as provided in section 164), and other expenses, paid or accrued during the taxable year exclusively on or with respect to the real estate owned by the company. No deduction shall be allowed under this paragraph for any amount paid out for new buildings, or for permanent improvement or betterments made to increase the value of any property.

(4) DEPRECIATION.—The depreciation deduction allowed by section 167.

(5) DEPLETION.—The deduction allowed by section 611 (relating to depletion).

(6) TRADE OR BUSINESS DEDUCTIONS.—The deductions allowed by this subtitle (without regard to this part) which are attributable to any trade or business (other than an insurance business) carried on by the life insurance company, or by a partnership of which the life insurance company is a partner; except that for purposes of this paragraph—

(A) There shall be excluded losses from—

(i) sales or exchanges of capital assets,

(ii) sales or exchanges of property used in the trade or business (as defined in section 1231 (b)), and

(iii) the compulsory or involuntary conversion (as a result of destruction, in whole or in part, theft or seizure, or an exercise of the power of requisition or condemnation or the threat or imminence thereof) of property used in the trade or business (as so defined).

(B) Any item, to the extent attributable to the carrying on of the insurance business, shall not be taken into account.

(C) The deduction for net operating losses provided in section 172, and the special deductions for corporations provided in part VIII of subchapter B, shall not be allowed.

(d) RENTAL VALUE OF REAL ESTATE.—The deduction under subsection (c) (3) and (4) on account of any real estate owned and occupied in whole or in part by a life insurance company shall be limited to an amount which bears the same ratio to such deduction (computed without regard to this subsection) as the rental value of the space not so occupied bears to the rental value of the entire property.

(e) AMORTIZATION OF PREMIUM AND ACCRUAL OF DISCOUNT.—The gross investment income, the deduction for wholly exempt interest allowed by subsection (c) (1), and the deduction allowed by section 242 (relating to partially tax-exempt interest) shall each be decreased to reflect the appropriate amortization of premium and increased to reflect the appropriate accrual of discount attributable to the taxable year on bonds, notes, debentures, or other evidences of indebtedness held by a life insurance company. Such amortization and accrual shall be determined—

(1) in accordance with the method regularly employed by such company, if such method is reasonable, and

(2) in all other cases, in accordance with regulations prescribed by the Secretary or his delegate.

SEC. 804. RESERVE AND OTHER POLICY LIABILITY DEDUCTION.

(a) GENERAL RULE.—Except as provided in subsection (b), for purposes of this subpart the term "reserve and other policy liability deduction" means the sum of the amounts determined by applying the following percentages to the excess of the net investment income over the net investment income allocable to non-life insurance reserves (determined under subsection (d)):

(1) 87.5 percent of so much of such excess as does not exceed $1,000,000; and

(2) 85 percent of so much of such excess as exceeds $1,000,000.

(b) MAXIMUM DEDUCTION.—

(1) IN GENERAL.—The reserve and other policy liability deduction shall in no case exceed that amount which is equal to the sum of the following:

(A) the amount equal to 2 times the amount determined under paragraph (1) of section 805 (c) (relating to required interest on life insurance reserves);

(B) the amount determined under paragraph (2) of section 805 (c) (relating to required interest on reserves for deferred dividends);

(C) the amount of the interest paid (as defined in section 805 (d));

(D) the dividends to policyholders paid or declared (other than dividends on contracts meeting the requirements of subsection (d) (2) (A); and

(E) in the case of a mutual assessment life insurance company or association, the amount equal to 2 times whichever of the following is the lesser:

(i) the amount of the net investment income on life insurance reserves described in subparagraph (A) or (B) of section 801 (b) (3), or (ii) 3 percent of the life insurance reserves so described,

reduced by the amount of the adjustment for policy loans provided in paragraph (2) of this subsection. For purposes of subparagraph (D) of the preceding sentence, the term "paid or declared" shall be construed according to the method of accounting regularly employed in keeping the books of the insurance company.

(2) REDUCTION FOR CERTAIN POLICY LOANS.—The adjustment described in paragraph (1) of this subsection shall be an amount equal to—

(A) the mean of the aggregates, at the beginning and end of the taxable year, of the outstanding policy loans with respect to contracts for which life insurance reserves are maintained, multiplied by

(B) the average rate of interest applicable to life insurance reserves.

For purposes of subparagraph (B) of the preceding sentence, the term "average rate of interest applicable to life insurance reserves" means the ratio obtained by dividing the sum obtained under paragraph (1) of section 805 (c) by the sum obtained under paragraph (1) (B) of section 805 (c).

(3) DIVIDENDS RECEIVED DEDUCTION WHERE MAXIMUM LIMIT APPLIES.—

(A) If paragraph (1) of this subsection reduces the reserve and other policy liability deduction allowed by this section or section 812 for the taxable year, then in computing life insurance taxable income under section 802 (b), and in computing life insurance company taxable income under section 811 (b), there shall be allowed an additional deduction in an amount determined under subparagraph (B).

(B) The amount of the additional deduction referred to in subparagraph (A) shall be the amount which bears the same ratio to the total of the deductions provided in sections 243, 244, and 245 as the net investment income reduced by the sum of—

(i) the net investment income allocable to non-life-insurance reserves (or, for purposes of section 811 (b), the amount of the adjustment for certain reserves provided in section 813), and

(ii) 100/85 of the maximum limitation determined under paragraphs (1) and (2) of this subsection,

bears to the net investment income.

(c) QUALIFIED RESERVES DEFINED.—For purposes of this subpart, the term "qualified reserves" means the sum of the following:

(1) The life insurance reserves (as defined in section 801 (b)), plus 7 percent of that portion of such reserves as are computed on a preliminary term basis.

(2) The non-life insurance reserves (as defined in subsection (d) (2)).

(3) The amounts (discounted at the rates of interest assumed by the company) necessary to satisfy the obligations under insurance and annuity contracts (including contracts supplementary thereto), but only if (A) such obligations when satisfied will reflect an increment in the nature of interest, and (B) such obligations do not involve (at the time with respect to which the computation is made under this paragraph) life, health, or accident contingencies.

(4) The amounts held at the end of the taxable year as reserves for dividends to policy holders, the payment of which dividends is deferred for a period which expires not earlier than 5 years from the date of the policy contract. This paragraph does not apply to dividends payable during the year following the taxable year.

(5) Dividend accumulations, and other amounts, held at interest in connection with insurance or annuity contracts (including contracts supplementary thereto).

(6) Premiums received in advance, and liabilities for premium deposit funds.

In applying this subsection, the same item shall be counted only once. For purposes of this section (other than paragraph (4) of this subsection), the amount of any reserve (or portion thereof) for any taxable year shall be the mean of such reserve (or portion thereof) at the beginning and end of the taxable year.

(d) NET INVESTMENT INCOME ALLOCABLE TO NON-LIFE INSURANCE RESERVES.—

(1) ALLOCATION RATIO.—For purposes of this subpart, the net investment income allocable to non-life insurance reserves is that amount which bears the same ratio to the net investment income as such reserves bear to the qualified reserves.

(2) NON-LIFE INSURANCE RESERVES DEFINED.—For purposes of this subpart, the term "non-life insurance reserves" means the sum of the unearned premiums and the unpaid losses (whether or not ascertained)—

(A) on contracts other than life insurance, annuity, and noncancellable health and accident insurance contracts (including life insurance or annuity

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contracts combined with noncancellable health and accident insurance), and

(B) which are not included in life insurance reserves (as defined in section 801 (b).

For purposes of his paragraph, such unearned premiums shall not be considered to be less than 25 percent of the net premiums written during the taxable year on such other contracts.

(3) ADJUSTMENTS WITH RESPECT TO CERTAIN NON-LIFE INSURANCE CONTRACTS.—For purposes of this subpart, if—

(A) any computation under this subpart is made by reference to a contract meeting the requirements of paragraph (2) (A) of this subsection, and

(B) part of the reserves for such contract are life insurance reserves,

then, under regulations prescribed by the Secretary or his delegate, proper adjustment shall be made in the amount taken into account with respect to such contract for purposes of such computation.

SEC. 805. SPECIAL INTEREST DEDUCTION.

(a) SPECIAL INTEREST DEDUCTION.—For purposes of the tax imposed by section 802 (and the tax imposed by section 811), there shall be allowed a special interest deduction determined as follows:

(1) Divide the amount of the adjusted net investment income (as defined in subsection (b)) by the amount of the required interest (as defined in subsection (c)).

(2) If the quotient obtained in paragraph (1) is 1.05 or more, the special interest deduction shall be zero.

(3) If the quotient obtained in paragraph (1) is 1.00 or less, the special interest deduction shall be an amount equal to 50 percent of the amount by which—

(A) the net investment income (reduced by the net investment income allocable to non-life insurance reserves), exceeds

(B) the reserve and other policy liability deduction for the taxable year.

(4) If the quotient obtained in paragraph (1) is more than 1.00 but less than 1.05, the special interest deduction shall be the amount obtained by multiplying—

(A) the amount by which (i) the net investment income (reduced by the net investment income allocable to non-life insurance reserves) exceeds (ii) the reserve and other policy liability deduction for the taxable year, by

(B) 10 times the difference between the figure 1.05 and the quotient obtained in paragraph (1).

(b) ADJUSTED NET INVESTMENT INCOME.—For purposes of subsection (a) (1), the term "adjusted net investment income" means—

(1) the net investment income (computed without the deduction for wholly-exempt interest allowed by section 803 (c) (1)), minus

(2) 50 percent of the net investment income allocable to non-life insurance reserves.

(c) REQUIRED INTEREST.—For purposes of subsection (a) (1), the term "required interest" means the total of—

(1) the sum of the amounts obtained by multiplying—

(A) each rate of interest assumed in computing the taxpayer's life-insurance reserves, by

(B) the means of the amounts of the taxpayer's life-insurance reserves computed at such rate at the beginning and end of the taxable year, plus 7 percent of the portion of such reserves at such rate as are computed on a preliminary term basis;

(2) the sum of the amounts obtained by multiplying—

(A) each rate of interest assumed in computing the taxpayer's reserves for deferred dividends described in section 804 (c) (4), by

(B) the means of the amounts of such reserves computed at such rate at the end of the taxable year; and

(3) interest paid.

(d) INTEREST PAID.—For purposes of subsection (c) (3), the term "interest paid" means—

(1) all interest paid or accrued within the taxable year on indebtedness, except on indebtedness incurred or continued to purchase or carry obligations (other than obligations of the United States issued after September 24, 1917, and originally subscribed for by the taxpayer) the interest on which is wholly exempt from taxation under this chapter; and

(2) all amounts in the nature of interest, whether or not guaranteed, paid or accrued within the taxable year on insurance or annuity contracts (or contracts arising out of insurance or annuity contracts) which do not involve, at the time of payment or accrual, life, health, or accident contingencies.

Subpart B—1942 Formula

Sec. 811. Tax imposed.
Sec. 812. Reserve and other policy liability deduction.
Sec. 813. Adjustment for certain reserves.

SEC. 811. TAX IMPOSED.

(a) TAX IMPOSED.—A tax is hereby imposed, on the life insurance company taxable income of every life insurance company, for each taxable year beginning after December 31, 1955. Such tax shall consist of—

(1) a normal tax on such income computed under section 11 (b), and

(2) a surtax on such income computed under section 11 (c).

(b) LIFE INSURANCE COMPANY TAXABLE INCOME DEFINED.—For purposes of this subpart, the term "life insurance company taxable income" means the net investment income (as defined in section 803 (c))—

(1) minus the reserve and other policy liability deduction allowed by section 812,

(2) minus the special interest deduction, if any, allowed by section 805, and

(3) plus the amount of the adjustment for certain reserves provided in section 813.

For purposes of the normal tax, the life insurance company taxable income shall be reduced by the deduction provided in section 242 for partially tax-exempt interest.

(c) RULE FOR COMPUTATION OF SPECIAL INTEREST DEDUCTION.—In computing the special interest deduction under section 805 in the case of any taxable year with respect to which a tax is imposed under this section—

(1) in lieu of the reduction of the net investment income provided in paragraphs (3) (A) and (4) (A) of section 805 (a), the net investment income shall be reduced by the amount of the adjustment for certain reserves provided in section 813, and

(2) in lieu of subtracting the amount provided in paragraph (2) of section 805 (b), subtract 50 percent of the amount of the adjustment for certain reserves provided in section 813.

SEC. 812. RESERVE AND OTHER POLICY LIABILITY DEDUCTION.

(a) GENERAL RULE.—For purposes of this subpart, the term "reserve and other policy liability deduction" means an amount computed by multiplying the net investment income by a figure, to be determined and proclaimed by the Secretary or his delegate for each taxable year with respect to which a tax is imposed by section 811. This figure shall be based on such data with respect to life insurance companies for the preceding taxable year as the Secretary or his delegate considers representative and shall be computed in accordance with the following formula: The ratio which a numerator comprised of the aggregate of the sums of—

(1) 2 percent of the reserves for deferred dividends,

(2) interest paid, and

(3) the product of—

(A) the mean of the adjusted reserves at the beginning and end of the taxable year, and

(B) the reserve earnings rate,

bears to a denominator comprised of the aggregate of the excess of net investment incomes (computed without the deduction for wholly-exempt interest allowed by section 803 (c) (1) over the adjustment for certain reserves provided in section 813.

(b) DEFINITIONS.—For purposes of subsection (a)—

(1) RESERVES FOR DEFERRED DIVIDENDS.—The term "reserves for deferred dividends" has the same meaning as when used in section 804 (c) (4).

(2) INTEREST PAID.—The term "interest paid" has the meaning given to such term by section 805 (d).

(3) ADJUSTED RESERVES.—The term "adjusted reserves" means the life insurance reserves (as defined in section 801 (b)), plus 7 percent of that portion of such reserves as are computed on a preliminary term basis.

(4) RESERVE EARNINGS RATE.—The term "reserve earnings rate" means a rate computed by adding 2.1125 percent (65 percent of 3¼ percent) to 35 percent of the average rate of interest assumed in computing life insurance reserves. Such average rate shall be calculated by multiplying each assumed rate of interest by the means of the amounts of the adjusted reserves computed at that rate at the beginning and end of the taxable year and dividing the sum of the products by the mean of the total adjusted reserves at the beginning and end of the taxable year.

(c) MAXIMUM DEDUCTION.—The reserve and other policy liability deduction allowed by subsection (a) of this section shall in no case exceed an amount equal to the amount which would be determined under subsection (b) of section 804 if such subsection applied with respect to the taxable year.

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SEC. 813. ADJUSTMENT FOR CERTAIN RESERVES.

In the case of a life insurance company writing contracts other than life insurance, annuity, and noncancellable health and accident insurance contracts (including life insurance or annuity contracts combined with noncancellable health and accident insurance), the term "adjustment for certain reserves" means for purposes of this subpart, an amount equal to 3¼ percent of the unearned premiums and unpaid losses on such other contracts which are not included in life insurance reserves (as defined in section 801 (b). For purposes of this section, such unearned premiums shall not be considered to be less than 25 percent of the net premiums written during the taxable year on such other contracts.

Subpart C—Miscellaneous Provisions

Sec. 816. Foreign life insurance companies.
Sec. 817. Denial of double deductions.

SEC. 816. FOREIGN LIFE INSURANCE COMPANIES.

(a) CARRYING ON UNITED STATES INSURANCE BUSINESS.—A foreign life insurance company carrying on a life insurance business within the United States, if with respect to its United States business it would qualify as a life insurance company under section 801, shall be taxable in the same manner as a domestic life insurance company: except that the determinations necessary for purposes of this subtitle shall be made on the basis of the income, disbursements, assets, and liabilities reported in the annual statement for the taxable year of the United States business of such company on the form approved for life insurance companies by the National Association of Insurance Commissioners.

(b) NO UNITED STATES INSURANCE BUSINESS.—Foreign life insurance companies not carrying on an insurance business within the United States shall not be taxable under this part but shall be taxable as other foreign corporations.

SEC. 817. DENIAL OF DOUBLE DEDUCTIONS.

Nothing in this part shall permit the same item to be deducted more than once.

SEC. 818. CERTAIN NEW INSURANCE COMPANIES.

(a) GENERAL RULE.—If the taxable year begins not more than 4 years after the first day on which the taxpayer was authorized to do business as an insurance company, then—

(1) for purposes of subpart A, the life insurance taxable income shall not exceed (A) the amount of the net gain from operations after dividends to policyholders, reduced by (B) (i) the net investment income allocable to non-life insurance reserves and (ii) the special reduction for dividends received provided by subsection (c); or

"(2) for purposes of subpart B, the life insurance company taxable income shall not exceed (A) the amount of the net gain from operations after dividends to policyholders, reduced by (B) the special reduction for dividends received provided by subsection (c).

For purposes of this subsection, the net gain from operations after dividends to policyholders shall be computed in the manner required for purposes of the annual statement approved by the National Convention of Insurance Commissioners, except that no reduction shall be made for any Federal income tax.

(b) LIMITATION.—This section shall not reduce the tax for any taxable year below the amount which (but for this section) would be imposed by section 802 or section 811, as the case may be, computed without the applicable limitation on the reserve and other policy liability deduction contained in section 804 (b) or section 812 (c).

"(c) SPECIAL RULE FOR DIVIDENDS RECEIVED.—The reduction referred to in paragraph (1) (B) (ii) and in paragraph (2) (B) of subsection (a) shall be an amount computed under section 804 (b) (3), except that, for purposes of such computation, the maximum limitation referred to in section 804 (b) (3) (B) (ii) shall be—

(1) in the case of a taxable year with respect to which tax is imposed by section 802, the amount by which (A) the net investment income (reduced by the net investment income allocable to non-life insurance reserves), exceeds (B) the life insurance taxable income (computed without regard to the reduction provided by this subsection); or

(2) in the case of a taxable year with respect to which tax is imposed by section 811, the amount by which (A) the sum of the net investment income and the amount of the adjustment for certain reserves provided in section 813, exceeds (B) the life insurance company taxable income (computed without regard to the reduction provided by this subsection).

PART II—MUTUAL INSURANCE COMPANIES (OTHER THAN LIFE OR MARINE OR FIRE INSURANCE COMPANIES ISSUING PERPETUAL POLICIES)

Sec. 821. Tax on mutual insurance companies (other than life or marine or fire insurance companies issuing perpetual policies).
Sec. 822. Determination of mutual insurance company taxable income.
Sec. 823. Other definitions.

SEC. 821. TAX ON MUTUAL INSURANCE COMPANIES (OTHER THAN LIFE OR MARINE OR FIRE INSURANCE COMPANIES ISSUING PERPETUAL POLICIES).

(a) IMPOSITION OF TAX ON MUTUAL COMPANIES OTHER THAN INTERINSURERS.—There shall be imposed for each taxable year on the income of every mutual insurance company (other than a life or a marine insurance company or a fire insurance company subject to the tax imposed by section 831 and other than an interinsurer or reciprocal underwriter) a tax computed under paragraph (1) or paragraph (2), whichever is the greater:

(1) If the mutual insurance company taxable income (computed without regard to the deduction provided in section 242 for partially tax-exempt interest) is over $3,000, a tax computed as follows:

(A) NORMAL TAX.—

(i) TAXABLE YEARS BEGINNING BEFORE APRIL 1, 1955.—In the case of taxable years beginning before April 1, 1955, a normal tax of 30 percent of the mutual insurance company taxable income, or 60 percent of the amount by which such taxable income exceeds $3,000, whichever is the lesser;

(ii) TAXABLE YEARS BEGINNING AFTER MARCH 31, 1955.—In the case of taxable years beginning after March 31, 1955, a normal tax of 25 percent of the mutual insurance company taxable income, or 50 percent of the amount by which such taxable income exceeds $3,000, whichever is the lesser; plus

(B) SURTAX.—A surtax of 22 percent of the mutual insurance company taxable income (computed without regard to the deduction provided in section 242 for partially tax-exempt interest) in excess of $25,000.

(2) If for the taxable year the gross amount of income from [interest, dividends, rents,] *the items described in section 822 (b) (other than paragraph (1) (D) thereof)* and net premiums, minus dividends to policyholders, minus the interest which under section 103 is excluded from gross income exceeds $75,000, a tax equal to 1 percent of the amount so computed, or 2 percent of the excess of the amount so computed over $75,000, whichever is the lesser.

(b) IMPOSITION OF TAX ON INTERINSURERS.—In the case of every mutual insurance company which is an interinsurer or reciprocal underwriter (other than a life or a marine insurance company or a fire insurance company subject to the tax imposed by section 831), if the mutual insurance company taxable income (computed as provided in subsection (a) (1)) is over $50,000, there shall be imposed for each taxable year on the mutual insurance company taxable income a tax computed as follows:

(1) NORMAL TAX.—

(A) TAXABLE YEARS BEGINNING BEFORE APRIL 1, 1955.—In the case of taxable years beginning before April 1, 1955, a normal tax of 30 percent of the mutual insurance company taxable income, or 60 percent of the amount by which such taxable income exceeds $50,000, whichever is the lesser;

(B) TAXABLE YEARS BEGINNING AFTER MARCH 31, 1955.—In the case of a taxable year beginning after March 31, 1955, a normal tax of 25 percent of the mutual insurance company taxable income, or 50 percent of the amount by which such taxable income exceeds $50,000, whichever is the lesser; plus

(2) SURTAX.—A surtax of 22 percent of the mutual insurance company taxable income (computed as provided in subsection (a) (1)) in excess of $25,000, or 33 percent of the amount by which such taxable income exceeds $50,000, whichever is the lesser.

(c) GROSS AMOUNT RECEIVED, OVER $75,000 BUT LESS THAN $125,000.—If the gross amount received during the taxable year from [interest, dividends, rents,] *the items described in section 822 (b) (other than paragraph (1) (D) thereof)* and premiums (including deposits and assessments) is over $75,000 but less than $125,000, the tax imposed by subsection (a) or subsection (b), whichever applies,

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shall be reduced to an amount which bears the same proportion to the amount of the tax determined under such subsection as the excess over $75,000 of such gross amount received bears to $50,000.

(d) NO UNITED STATES INSURANCE BUSINESS.—Foreign mutual insurance companies (other than a life or marine insurance company or a fire insurance company subject to the tax imposed by section 831) not carrying on an insurance business within the United States shall not be subject to this part but shall be taxable as other foreign corporations.

(e) ALTERNATIVE TAX ON CAPITAL GAINS.—

For alternative tax in case of capital gains, see section 1201 (a).

SEC. 822. DETERMINATION OF MUTUAL INSURANCE COMPANY TAXABLE INCOME.

(a) DEFINITION.—For purposes of section 821, the term "mutual insurance company taxable income" means the gross investment income minus the deductions provided in subsection (c).

[(b) GROSS INVESTMENT INCOME.—For purposes of subsection (a), the term "gross investment income" means the gross amount of income during the taxable year from interest, dividends, rents, and gains from sales or exchanges of capital assets to the extent provided in subchapter P (sec. 1201 and following, relating to capital gains and losses).]

(b) GROSS INVESTMENT INCOME.—For purposes of subsection (a), the term "gross investment income" means the sum of the following:

(1) The gross amount of income during the taxable year from—

(A) interest, dividends, rents, and royalties,

(B) the entering into of any lease, mortgage, or other instrument or agreement from which the insurance company derives interest, rents, or royalties,

(C) the alteration or termination of any instrument or agreement described in subparagraph (B), and

(D) gains from sales or exchanges of capital assets to the extent provided in subchapter P (sec. 1201 and following, relating to capital gains and losses).

(2) The gross income during the taxable year from any trade or business (other than an insurance business) carried on by the insurance company, or by a partnership of which the insurance company is a partner. In computing gross income under this paragraph, there shall be excluded any item described in paragraph (1).

(c) DEDUCTIONS.—In computing mutual insurance company taxable income, the following deductions shall be allowed:

(1) TAX-FREE INTEREST.—The amount of interest which under section 103 is excluded for the taxable year from gross income.

(2) INVESTMENT EXPENSES.—Investment expenses paid or accrued during the taxable year. If any general expenses are in part assigned to or included in the investment expenses, the total deduction under this paragraph shall not exceed one-fourth of 1 percent of the mean of the book value of the invested assets held at the beginning and end of the taxable year plus one-fourth of the amount by which mutual insurance company taxable income (computed without any deduction for investment expenses allowed by this paragraph, for tax-free interest allowed by paragraph (1), or for partially tax-exempt interest and dividends received allowed by paragraph (7)), exceeds 3¾ percent of the book value of the mean of the invested assets held at the beginning and end of the taxable year.

[(3) REAL ESTATE EXPENSES.—Taxes and other expenses paid or accrued during the taxable year exclusively on or with respect to the real estate owned by the company, not including taxes assessed against local benefits of a kind tending to increase the value of the property assessed, and not including any amount paid out for new buildings, or for permanent improvements or betterments made to increase the value of any property The deduction allowed by this paragraph shall be allowed in the case of taxes imposed on a shareholder of a company on his interest as shareholder, which are paid or accrued by the company without reimbursement from the shareholder, but in such cases no deduction shall be allowed the shareholder for the amount of such taxes.]

(3) REAL ESTATE EXPENSES.—Taxes (as provided in section 164), and other expenses, paid or accrued during the taxable year exclusively on or with respect to the real estate owned by the company. No deduction shall be allowed under this paragraph for any amount paid out for new buildings, or for permanent improvements or betterments made to increase the value of any property.

(4) DEPRECIATION.—The depreciation deduction allowed by section 167.

(5) INTEREST PAID OR ACCRUED.—All interest paid or accrued within the taxable year on indebtedness, except on indebtedness incurred or continued

to purchase or carry obligations (other than obligations of the United States issued after September 24, 1917, and originally subscribed for by the taxpayer) the interest on which is wholly exempt from taxation under this subtitle.

(6) CAPITAL LOSSES.—Capital losses to the extent provided in subchapter P (sec. 1201 and following) plus losses from capital assets sold or exchanged in order to obtain funds to meet abnormal insurance losses and to provide for the payment of dividends and similar distributions to policyholders. Capital assets shall be considered as sold or exchanged in order to obtain funds to meet abnormal insurance losses and to provide for the payment of dividends and similar distributions to policyholders to the extent that the gross receipts from their sale or exchange are not greater than the excess, if any, for the taxable year of the sum of dividends and similar distributions paid to policy holders, losses paid, and expenses paid over the sum of [interest, dividends, rents, and net premiums received. In the application of section 1211] *the items described in subsection (b) (other than paragraph (1) (D) thereof) and net premiums received. In the application of section 1212* for purposes of this section, the net capital loss for the taxable year shall be the amount by which losses for such year from sales or exchanges of capital assets exceeds the sum of the gains from such sales or exchanges and whichever of the following amounts is the lesser:

(A) the mutual insurance company taxable income (computed without regard to gains or losses from sales or exchanges of capital assets or to the deduction provided in section 242 for partially tax-exempt interest); or

(B) losses from the sale or exchange of capital assets sold or exchanged to obtain funds to meet abnormal insurance losses and to provide for the payment of dividends and similar distributions to policyholders.

(7) SPECIAL DEDUCTIONS.—The special deductions allowed by part VIII (except section 248) of subchapter B (sec. 241 and following, relating to partially tax-exempt interest and to dividends received).

(8) TRADE OR BUSINESS DEDUCTIONS.—The deductions allowed by this subtitle (without regard to this part) which are attributable to any trade or business (other than an insurance business) carried on by the insurance company, or by a partnership of which the insurance company is a partner; except that for purposes of this paragraph—

(A) any item, to the extent attributable to the carrying on of the insurance business, shall not be taken into account, and

(B) the deduction for net operating losses provided in section 172 shall not be allowed.

(9) DEPLETION.—The deduction allowed by section 611 (relating to depletion).

(d) OTHER APPLICABLE RULES.—

(1) RENTAL VALUE OF REAL ESTATE.—The deduction under [subsection (e) (3) or (4)] *subsection (c) (3) or (4)* on account of any real estate owned and occupied in whole or in part by a mutual insurance company subject to the tax imposed by section 821 shall be limited to an amount which bears the same ratio to such deduction (computed without regard to this paragraph) as the rental value of the space not so occupied bears to the rental value of the entire property.

(2) AMORTIZATION OF PREMIUM AND ACCRUAL OF DISCOUNT.—The gross amount of income during the taxable year from interest, the deduction provided in subsection (c) (1), and the deduction allowed by section 242 (relating to partially tax-exempt interest) shall each be decreased to reflect the appropriate amortization of premium and increased to reflect the appropriate accrual of discount attributable to the taxable year on bonds, notes, debentures, or other evidences of indebtedness held by a mutual insurance company subject to the tax imposed by section 821. Such amortization and accrual shall be determined—

(A) in accordance with the method regularly employed by such company, if such method is reasonable, and

(B) in all other cases, in accordance with regulations prescribed by the Secretary or his delegate.

(3) DOUBLE DEDUCTIONS.—Nothing in this part shall permit the same item to be deducted more than once.

(e) FOREIGN MUTUAL INSURANCE COMPANIES OTHER THAN LIFE OR MARINE.—In the case of a foreign mutual insurance company (other than a life or marine insurance company or a fire insurance company subject to the tax imposed by section 831), the mutual insurance company taxable income shall be the taxable income from sources within the United States (computed without regard to the deductions allowed by subsection (c) (7)), and the gross amount of income from

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the [interest, dividends, rents,] *items described in subsection (b) (other than paragraph (1) (D) thereof)* and net premiums shall be the amount of such income from sources within the United States. In the case of a company to which the preceding sentence applies, the deductions allowed in this section shall be allowed to the extent provided in subpart B of part II of subchapter N (sec. 881 and following) in the case of a foreign corporation engaged in trade or business within the United States.

SEC. 823. OTHER DEFINITIONS.

For purposes of this part—

(1) NET PREMIUMS.—The term "net premiums" means gross premiums (including deposits and assessments) written or received on insurance contracts during the taxable year less return premiums and premiums paid or incurred for reinsurance. Amounts returned where the amount is not fixed in the insurance contract but depends on the experience of the company or the discretion of the management shall not be included in return premiums but shall be treated as dividends to policyholders under paragraph (2).

(2) DIVIDENDS TO POLICYHOLDERS.—The term "dividends to policyholders" means dividends and similar distributions paid or declared to policyholders. For purposes of the preceding sentence, the term "paid or declared" shall be construed according to the method regularly employed in keeping the books of the insurance company.

PART III—OTHER INSURANCE COMPANIES

Sec. 831. Tax on insurance companies (other than life or mutual), mutual marine insurance companies, and mutual fire insurance companies issuing perpetual policies.
Sec. 832. Insurance company taxable income.

SEC. 831. TAX ON INSURANCE COMPANIES (OTHER THAN LIFE OR MUTUAL), MUTUAL MARINE INSURANCE COMPANIES AND MUTUAL FIRE INSURANCE COMPANIES ISSUING PERPETUAL POLICIES.

(a) IMPOSITION OF TAX.—Taxes computed as provided in section 11 shall be imposed for each taxable year on the taxable income of every insurance company (other than a life or mutual insurance company), every mutual marine insurance company, and every mutual fire insurance company exclusively issuing either perpetual policies or policies for which the sole premium charged is a single deposit which (except for such deduction of underwriting costs as may be provided) is refundable on cancellation or expiration of the policy.

(b) NO UNITED STATES INSURANCE BUSINESS.—Foreign insurance companies (other than a life or mutual insurance company), foreign mutual marine insurance companies, and foreign mutual fire insurance companies described in subsection (a), not carrying on an insurance business within the United States, shall not be subject to this part but shall be taxable as other foreign corporations.

(c) ALTERNATIVE TAX ON CAPITAL GAINS.—

For alternative tax in case of capital gains, see section 1201 (a).

SEC. 832. INSURANCE COMPANY TAXABLE INCOME.

(a) DEFINITION OF TAXABLE INCOME.—In the case of an insurance company subject to the tax imposed by section 831, the term "taxable income" means the gross income as defined in subsection (b) (1) less the deductions allowed by subsection (c).

(b) DEFINITIONS.—In the case of an insurance company subject to the tax imposed by section 831—

(1) GROSS INCOME.—The term "gross income" means the sum of—

(A) the combined gross amount earned during the taxable year, from investment income and from underwriting income as provided in this subsection, computed on the basis of the underwriting and investment exhibit of the annual statement approved by the National Convention of Insurance Commissioners,

(B) gain during the taxable year from the sale or other disposition of property, and

(C) all other items constituting gross income under subchapter B, except that, in the case of a mutual fire insurance company described in section 831 (a), the amount of single deposit premiums paid to such company shall not be included in gross income.

(2) INVESTMENT INCOME.—The term "investment income" means the gross amount of income earned during the taxable year from interest, dividends, and rents, computed as follows: To all interest, dividends, and rents

received during the taxable year, add interest, dividends, and rents due and accrued at the end of the taxable year, and deduct all interest, dividends, and rents due and accrued at the end of the preceding taxable year.

(3) UNDERWRITING INCOME.—The term "underwriting income" means the premiums earned on insurance contracts during the taxable year less losses incurred and expenses incurred.

(4) PREMIUMS EARNED.—The term "premiums earned on insurance contracts during the taxable year" means an amount computed as follows:

(A) From the amount of gross premiums written on insurance contracts during the taxable year, deduct return premiums and premiums paid for reinsurance.

(B) To the result so obtained, add unearned premiums on outstanding business at the end of the preceding taxable year and deduct unearned premiums on outstanding business at the end of the taxable year.

For purposes of this subsection, unearned premiums shall include life insurance reserves, as defined in [section 806] *section 801 (b)*, pertaining to the life, burial, or funeral insurance, or annuity business of an insurance company subject to the tax imposed by section 831 and not qualifying as a life insurance company under section 801.

(5) LOSSES INCURRED.—The term "losses incurred" means losses incurred during the taxable year on insurance contracts, computed as follows:

(A) To losses paid during the taxable year, add salvage and reinsurance recoverable outstanding at the end of the preceding taxable year and deduct salvage and reinsurance recoverable outstanding at the end of the taxable year.

(B) To the result so obtained, add all unpaid losses outstanding at the end of the taxable year and deduct unpaid losses outstanding at the end of the preceding taxable year.

(6) EXPENSES INCURRED.—The term "expenses incurred" means all expenses shown on the annual statement approved by the National Convention of Insurance Commissioners, and shall be computed as follows: To all expenses paid during the taxable year, add expenses unpaid at the end of the taxable year and deduct expenses unpaid at the end of the preceding taxable year. For the purpose of computing the taxable income subject to the tax imposed by section 831, there shall be deducted from expenses incurred (as defined in this paragraph) all expenses incurred which are not allowed as deductions by subsection (c).

(c) DEDUCTIONS ALLOWED.—In computing the taxable income of an insurance company subject to the tax imposed by section 831, there shall be allowed as deductions:

(1) all ordinary and necessary expenses incurred, as provided in section 162 (relating to trade or business expenses);

(2) all interest, as provided in section 163;

(3) taxes, as provided in section 164;

(4) losses incurred, as defined in subsection (b) (5) of this section;

(5) capital losses to the extent provided in subchapter P (sec. 1201 and following, relating to capital gains and losses) plus losses from capital assets sold or exchanged in order to obtain funds to meet abnormal insurance losses and to provide for the payment of dividends and similar distributions to policyholders. Capital assets shall be considered as sold or exchanged in order to obtain funds to meet abnormal insurance losses and to provide for the payment of dividends and similar distributions to policyholders to the extent that the gross receipts from their sale or exchange are not greater than the excess, if any, for the taxable year of the sum of dividends and similar distributions paid to policyholders in their capacity as such, losses paid, and expenses paid over the sum of [interest, dividends, rents, and net premiums received. In the application of section 1211] *the items described in section 822 (b) (other than paragraph (1) (D) thereof) and net premiums received. In the application of section 1212* for purposes of this section, the net capital loss for the taxable year shall be the amount by which losses for such year from sales or exchanges of capital assets exceeds the sum of the gains from such sales or exchanges and whichever of the following amounts is the lesser:

(A) the taxable income (computed without regard to gains or losses from sales or exchanges of capital assets or to the deductions provided in section 242 for partially tax-exempt interest); or

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(B) losses from the sale or exchange of capital assets sold or exchanged to obtain funds to meet abnormal insurance losses and to provide for the payment of dividends and similar distributions to policyholders;

(6) debts in the nature of agency balances and bills receivable which become worthless within the taxable year;

(7) the amount of interest earned during the taxable year which under section 103 is excluded from gross income;

(8) the depreciation deduction allowed by section 167 *and the deduction allowed by section 611 (relating to depletion)*;

(9) charitable, etc., contributions, as provided in section 170;

(10) deductions (other than those specified in this subsection) as provided in part VI of subchapter B (sec. 161 and following, relating to itemized deductions for individuals and corporations);

(11) dividends and similar distributions paid or declared to policyholders in their capacity as such, except in the case of a mutual fire insurance company described in section 831 (a). For purposes of the preceding sentence, the term "paid or declared" shall be construed according to the method of accounting regularly employed in keeping the books of the insurance company; and

(12) the special deductions allowed by part VIII of subchapter B (sec. 241 and following, relating to partially tax-exempt interest and to dividends received).

(d) TAXABLE INCOME OF FOREIGN INSURANCE COMPANIES OTHER THAN LIFE OR MUTUAL AND FOREIGN MUTUAL MARINE.—In the case of a foreign insurance company (other than a life or mutual insurance company), a foreign mutual marine insurance company, and a foreign mutual fire insurance company described in section 831 (a), the taxable income shall be the taxable income from sources within the United States. In the case of a company to which the preceding sentence applies, the deductions allowed in this section shall be allowed to the extent provided in subpart B of part II of subchapter N (sec. 881 and following) in the case of a foreign corporation engaged in trade or business within the United States.

(e) DOUBLE DEDUCTIONS.—Nothing in this section shall permit the same item to be deducted more than once.

PART IV—PROVISIONS OF GENERAL APPLICATION

Sec. 841. Credit for foreign taxes.
Sec. 842. Computation of gross income.
Sec. 843. Annual accounting period.

SEC. 841. CREDIT FOR FOREIGN TAXES.

The taxes imposed by foreign countries or possessions of the United States shall be allowed as a credit against the tax of a domestic insurance company subject to the tax imposed by section 802, *811*, 821, or 831, to the extent provided in the case of a domestic corporation in section 901 (relating to foreign tax credit). For purposes of the preceding sentence, the term "taxable income" as used in section 904 means—

(1) in the case of the tax imposed by [section 802, the taxable income (as defined in section 803 (g))] *section 802 or 811, the net investment income (as defined in section 803 (c))*,

(2) in the case of the tax imposed by section 831, the taxable income (as defined in section 832 (a)).

SEC. 842. COMPUTATION OF GROSS INCOME.

The gross income of insurance companies subject to the tax imposed by section [802 or 831] *802, 811, or 831* shall not be determined in the manner provided in part I of subchapter N (relating to determination of sources of income).

SEC. 843. ANNUAL ACCOUNTING PERIOD.

For the purposes of this subtitle, the annual accounting period for each insurance company subject to a tax imposed by this subchapter shall be the calendar year.

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SEC. 891. DOUBLING OF RATES OF TAX ON CITIZENS AND CORPORATIONS OF CERTAIN FOREIGN COUNTRIES.

Whenever the President finds that, under the laws of any foreign country, citizens or corporations of the United States are being subjected to discriminatory or extraterritorial taxes, the President shall so proclaim and the rates of tax imposed by sections 1, 3, 11, 802, *811*, 821, 831, 852, 871, and 881 shall, for the taxable year during which such proclamation is made and for each taxable year thereafter, be doubled in the case of each citizen and corporation of such foreign

country; but the tax at such doubled rate shall be considered as imposed by such sections as the case may be. In no case shall this section operate to increase the taxes imposed by such sections (computed without regard to this section) to an amount in excess of 80 percent of the taxable income of the taxpayer (computed without regard to the deductions allowable under section 151 and under part VIII of subchapter B). Whenever the President finds that the laws of any foreign country with respect to which the President has made a proclamation under the preceding provisions of this section have been modified so that discriminatory and extraterritorial taxes applicable to citizens and corporations of the United States have been removed, he shall so proclaim, and the provisions of this section providing for doubled rates of tax shall not apply to any citizen or corporation of such foreign country with respect to any taxable year beginning after such proclamation is made.

* * * * * * *

SEC. 1201. ALTERNATIVE TAX.

(a) CORPORATIONS.—If for any taxable year the net long-term capital gain of any corporation exceeds the net short-term capital loss, then, in lieu of the tax imposed by sections 11, 511, *802* (a), 821 (a) (1) or (b), and 831 (a), there is hereby imposed a tax (if such tax is less than the tax imposed by such sections) which shall consist of the sum of—

(1) a partial tax computed on the taxable income reduced by the amount of such excess, at the rates and in the manner as if this subsection had not been enacted, and

(2) an amount equal to 25 percent of such excess, or, in the case of a taxable year beginning before April 1, 1954, an amount equal to 26 percent of such excess.

In the case of a taxable year beginning before April 1, 1954, the amount under paragraph (2) shall be determined without regard to section 21 (relating to effect of change of tax rates).

* * * * * * *

SEC. 1504. DEFINITIONS.

(a) DEFINITION OF "AFFILIATED GROUP".—* * *

* * * * * *

(b) DEFINITION OF "INCLUDIBLE CORPORATION".—As used in this chapter, the term "includible corporation" means any corporation except—

(1) Corporations exempt from taxation under section 501.

(2) Insurance companies subject to taxation under section [802 or 821] *802, 811, or 821.*

* * * * * * *

SEC. 4371. IMPOSITION OF TAX.

There shall be imposed a tax on each policy of insurance, indemnity bond, annuity contract, or policy of reinsurance issued by any foreign insurer or reinsurer at the following rates:

* * * * * * *

(2) LIFE INSURANCE, SICKNESS, AND ACCIDENT POLICIES, AND ANNUITY CONTRACTS.—One cent on each dollar, or fractional part thereof, of the premium charged on the policy of life, sickness, or accident insurance, or annuity contract, unless the insurer is subject to tax under section [807] *816;*

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84TH CONGRESS, 2d Session | SENATE | REPORT No. 1572

REVIEW OF AUDIT REPORTS OF THE COMPTROLLER GENERAL

REPORT

OF THE

SENATE COMMITTEE ON GOVERNMENT OPERATIONS

EIGHTY-FOURTH CONGRESS

FEBRUARY 23 (legislative day, FEBRUARY 22), 1956.—Ordered to be printed

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84TH CONGRESS } SENATE { REPORT
2d Session } { No. 1572

REVIEW OF AUDIT REPORTS OF THE COMPTROLLER GENERAL

FEBRUARY 23 (legislative day, FEBRUARY 22), 1956.—Ordered to be printed

Mr. MCCLELLAN, from the Committee on Government Operations, submitted the following

REPORT

The Committee on Government Operations has the duty, under subsection 1 (g) (2) (A) of rule XXV of the Standing Rules of the Senate (Legislative Reorganization Act of 1946, as amended, 60 Stat. 812, 816), of receiving and examining reports of the Comptroller General and of submitting such recommendations to the Senate as it deems necessary or desirable in connection with the subject matter of such reports. This report is submitted to the Senate in compliance with that directive.

On recommendations of this committee, the Congress enacted the Budget and Accounting Procedures Act of 1950 (Public Law 784, 81st Cong., approved September 12, 1950). The act provided that the Comptroller General, in addition to other duties, is responsible for—

auditing the financial transactions of each executive, legislative, and judicial agency.

The committee concluded in its report to the Senate (S. Rept. 2031) that the legislation—

would accomplish a major advancement in the fields of budgeting and accounting in the Federal Government—

and, with respect to auditing, that—

The auditing of the Federal Government's financial transactions will continue to be conducted by the Comptroller General of the United States as an agent of the Congress, under provisions permitting more comprehensive and more selective audits, to be developed in line with improved agency accounting systems, internal controls, and related administrative practices.

In previous reports on related subjects, this committee pointed up the fact that former Comptroller General Lindsay C. Warren was fully aware of the value of auditing, and considered that function of the General Accounting Office to be an important aid to the Congress in carrying out its legislative duties, as required by the Constitution, particularly as related to fiscal affairs and the expenditure of Federal

funds. Mr. Warren's successor, Joseph Campbell, with his wide knowledge and experience in accounting, auditing, and financial affairs, has also placed the same emphasis on the importance of this service to the Congress. This continued emphasis on the value of audits by the Comptroller General assures that the legislative committees will be provided with detailed information relative to the fiscal and other operations of the various Federal agencies which would not otherwise be available to them. The committee wishes to express its appreciation to the Comptroller General and to members of his staff for their cooperation with the staff of this committee in the preparation of the basic material which has been incorporated in the agency analyses contained in this report.

Introduction

On December 20, 1950, this committee (then the Committee on Expenditures in the Executive Departments) submitted to the Senate a report on Audits of Government Corporations which was printed as Senate Report No. 2685, 81st Congress. In that report, the recommendations and suggestions made in the audit reports submitted to the Congress by the Comptroller General, from the date of enactment of the Government Corporation Control Act in 1945 until the beginning of the 82d Congress, were analyzed and discussed in separate committee staff memorandums relating to each corporation.

During the following 3 years, there were significant changes and developments in the management and activities of the corporations, many of which were based on suggestions contained in the General Accounting Office audit reports and the staff analyses of some of the reports. The committee determined, therefore, that it would be desirable to bring this information up to date by examining and appraising the results accomplished under the Government Corporation Control Act, and also to report to the Senate on the implementation of recommendations and other observations contained in the General Accounting Office audit reports submitted to the Congress on agencies under the comprehensive audit program. Accordingly, this committee submitted to the Senate on January 20, 1954, a comprehensive history of Government corporate activities entitled "Audit Reports of Government Corporations and Agencies" (S. Rept. 861, 83d Cong.). Additional information on General Accounting Office audit activities was included in the committee's report to the Senate on January 10, 1955, on its activities during the 83d Congress (S. Rept. 4, 84th Cong.).

The committee, in recommending enactment of the Budget and Accounting Procedures Act of 1950, pointed out that it was the continuing responsibility of the committee—

> to keep in close contact with the activation and administration of the program—

concluding that—

> this most important area of Federal activities is one which must be studied on a progressive and continuing basis—

in order that the committee might take further appropriate steps, as necessary, to consolidate and extend the gains attained by the enactment of the act. The chairman, in presenting the bill to the Senate, stated that it—

> is the result of more than 3 years' study on the part of the Committee on Expenditures in the Executive Departments, and representatives of the General Accounting Office, Treasury Department, and Bureau of the Budget.

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Former President Truman, upon approving the measure, stated that this act was—

> the most important legislation * * * in the budget and accounting field since the Budget and Accounting Act of 1921 was passed almost 30 years ago.

The reports of the Commission on Organization of the Executive Branch of the Government and of its task forces on budget and accounting, submitted to the Congress in June 1955, make numerous references to the effectiveness of this act, and its contribution to the improvement of Federal accounting and auditing policies and procedures. The Commission's report stated that the principles and standards developed by the Comptroller General in consultation with the executive branch, under his responsibility for prescribing principles, standards, and related requirements for accounting to be observed by each executive agency—

> have been set broadly, are sound, and permit flexibility in their application. They have been helpful and in our opinion are in complete harmony with the proper objectives of accounting improvement in the executive branch.

The Commission's report contained only one recommendation on auditing, and that dealt with internal auditing to be performed by the administrative agencies. The committee is of the opinion that the analyses of audit reports contained in this report will demonstrate that the General Accounting Office has taken a leading role in fostering the development of sound internal auditing programs in the respective agencies.

The purpose of this report is to present a résumé of the progress that has been made in auditing the financial transactions and activities of the Federal Government since the enactment of the Accounting and Auditing Act of 1950 (64 Stat. 834; 31 U. S. C. 66) which was included as part II of title I of the Budget and Accounting Procedures Act of 1950 (64 Stat. 832; 31 U. S. C. 65).

Joint program for improving accounting in the Federal Government

In 1947, the staff of this committee worked closely with representatives of the General Accounting Office, the Treasury Department, and the Bureau of the Budget in the formulation of a joint program for the improvement of accounting and financial reporting in the Federal Government. On recommendations of the committee, outmoded and duplicating procedures were eliminated and the revised program was adopted. These modifications were designed to give the President better management in the executive branch, the Congress better information upon which to base its action on appropriations and other legislation, and the public a clearer picture of the financial condition and operations of the Federal Government. (See staff memorandum No. 80–1–37, August 21, 1947, and 80–1–40, September 16, 1947.)

The program recognized that, if accounting was to serve the vital need for information useful in the management of the Federal Government in the same manner as it serves the needs of management in other fields of endeavor, the accounting system of each agency must meet its own particular requirements as well as supply a basis for adequate disclosure. Furthermore, it must provide for necessary integration with the budgeting processes and overall financial reporting by the Treasury Department.

On January 6, 1949, in formally approving the joint program, the Comptroller General, the Director of the Bureau of the Budget, and

the Secretary of the Treasury announced the following as major objectives:

> To provide a body of sound accounting and reporting principles and standards for general observance;
> To improve the accounting organizations and the systems of accounting in the various departments and agencies;
> To strengthen the facilities and accounting of the Treasury Department as the operating center for current accounting and overall financial reports of the Government;
> To produce more informative financial reports at less accounting costs;
> To improve, simplify, and strengthen the Government's system of audit and control in line with the increased effectiveness of accounting systems;
> To coordinate and integrate budget, accounting, and reporting processes.

The Comptroller General, during the hearings on the Budget and Accounting Procedures Act of 1950, stated that great credit is due to this committee for its suggestions and support during the formulation of the program, and for the participation of members of the staff of the committee in connection with the initiation of the program.

The comprehensive audit program of the General Accounting Office

The joint accounting program was an effective aid to the establishment by the Comptroller General in 1949 of the comprehensive audit program in the General Accounting Office as a means of discharging more effectively the audit responsibilities placed on him by law. The experience gained in auditing Government corporations under the provisions of the Government Corporation Control Act of 1945 (59 Stat. 597; 31 U. S. C. 841) had led to the extension of a comprehensive audit to nonincorporated agencies of the Government and, in turn, to the adoption of the formal program of comprehensive auditing as laid down in the Comptroller General's announcement of 1949.

This audit program gave recognition to the fact that the accounting and internal control procedures of each agency are the basic points for effective control of the Government's financial operations. In line with this, it became the policy of the General Accounting Office to utilize audit processes based on an evaluation of accounting systems and the effectiveness of other internal controls in the agencies at the site of operations, to the maximum extent practicable, as a means for fuller and more effective discharge of the Comptroller General's responsibility to the Congress.

Expansion of auditing at the site of operations

The passage of the Government Corporation Control Act in 1945 made a site audit of the accounts of Government corporations mandatory. The Comptroller General then authorized site audits of selected nonincorporated Government agencies, and in 1949 established the comprehensive audit program in the General Accounting Office with the expressed intention of extending site audits whenever it is in the best interests of the Government. The Accounting and Auditing Act of 1950 not only gave further recognition to the desirability of this type of audit but also lent impetus to it by authorizing the Comptroller General to require any executive agency to retain accounts, contracts, vouchers, and other documents for such periods not exceeding 10 years as he may specify (sec. 117 (b)).

The Comptroller General has reported that this provision has facilitated the expansion of on-the-spot or site audits by the General Accounting Office. The increased volume of expenditures during World

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War II made it imperative that the General Accounting Office make examinations of accounts and related records at many field locations. Project offices were established to enable the Office to keep abreast of its rapidly expanding workload in the audit of wartime cost-type contracts. Subsequently the field or site audit was extended to various other types of transactions. It became evident that auditing at the site of operations should be applied to the regular work of the Office at the first possible opportunity.

Prior to the passage of the 1950 act, field audits included audits of payments under cost-reimbursable contracts; examinations at Veterans' Administration offices and training institutions of financial transactions under the Servicemen's Readjustment Act; audits of records of contractors operating concessions under agreements providing revenue to the Government; audits of revenues and expenses incident to the operation of Government-owned or chartered vessels by agents of the United States Maritime Commission; audits of the financial transactions of the Atomic Energy Commission, Farmers' Home Administration, Bureau of Land Management, and phases of the Economic Cooperation Administration; audits of payments of salaries to civilian employees of the Government in Washington and in 27 area centers outside of Washington; and audits of payments under the Soil Conservation and Domestic Allotment Act, the Sugar Act of 1948, and other programs of the Department of Agriculture. The accounts of disbursing officers of the Army, Navy, and Air Force also were being audited at centralized locations outside of Washington.

The expansion of auditing at the site of operations is indicated by the following table, which shows the nature of audit work being performed by the General Accounting Office in all departments and agencies of the Federal Government, as of July 1, 1955.

Nature of audit work performed in all departments and agencies of the Federal Government

LEGEND

A—Assigned for comprehensive audit; all audit work performed at site.
B—All activities assigned for comprehensive audit and preliminary survey begun; no change yet made in detailed audit of transactions. Payrolls, including active duty and retired pay of commissioned officers of the Public Health Service, are audited at the site. All other documents are transmitted for centralized audit in Washington.
C—Not assigned for comprehensive audit; all audit work performed at site.
D—Not assigned for comprehensive audit; all audit work performed centrally in GAO.
E—Not assigned for comprehensive audit; payrolls, audited at site; other vouchers audited centrally in GAO.
F—Not assigned for comprehensive audit; payrolls audited offsite; other vouchers audited centrally in GAO.
G—All expenditures are audited centrally by the State Section, Civil Audit Branch, GAO, located in the State Department.
(All categories exclude transportation expenditures which are audited centrally by the Transportation Division, GAO.)

	Legend
EXECUTIVE OFFICE OF THE PRESIDENT	
The President's Office: Compensation of the President [1]	D
The White House Office	E
Executive Mansion and Grounds [2]	E
Funds appropriated to the President [3]	E
President's Advisory Committee on Government Organization [4]	E
Bureau of the Budget	E
Council of Economic Advisers [5]	E
Office of Defense Mobilization	E
National Security Council including Central Intelligence Agency	C

See footnotes at end of table.

	Legend
DEPARTMENT OF AGRICULTURE	
Office of the Secretary	E
Departmental administration (budget and finance, information, library, personnel, plant and operations, hearing examiners)	E
Office of the General Counsel	E
Agricultural credit:	
Farmers' Home Administration	A
Rural Electrification Administration	A
Agricultural stabilization:	
Commodity Stabilization Service	A
Commodity Credit Corporation [6]	A
Agricultural stabilization and conservation committees (community, county, and State)	A
Federal Crop Insurance Corporation [6]	A
Federal-States Relations:	
Agricultural Research Service	E
Forest Service	A
Soil Conservation Service	A
Federal Extension Service	E
Agricultural Conservation Program Service	A
Farmer Cooperative Service	A
Marketing and foreign agriculture:	
Agricultural Marketing Service	A
Foreign Agricultural Service	A
Commodity Exchange Authority	E
DEPARTMENT OF COMMERCE	
Office of the Secretary	A
Bureau of the Census	E
Bureau of Foreign Commerce	E
Bureau of Public Roads	A
Business and Defense Services Administration	E
Civil Aeronautics Administration	C
Coast and Geodetic Survey [7]	E
Federal Maritime Board and Maritime Administration	A
Guaranteed loan program under the Defense Production Act of 1950	A
Inland Waterways Corporation [6]	A
National Bureau of Standards	A
Office of Business Economics	E
Patent Office	E
Weather Bureau	E
DEPARTMENT OF DEFENSE	
Office of the Secretary of Defense	E
St. Lawrence Seaway Development Corporation [6]	A
DEPARTMENT OF THE AIR FORCE	
Civilian pay:	
Domestic	C
Foreign [8]	D
Cost-type contracts	C
Guaranteed loan program under the Defense Production Act of 1950	A
Industrial funds, Air Force printing plants at—	
Brookley Air Force Base, Mobile, Ala	A
Kelly Air Force Base, San Antonio, Tex	A
Maxwell Air Force Base, Montgomery, Ala	A
McClellan Air Force Base, McClellan, Calif	A
Olmsted Air Force Base, Middletown, Pa	A
Robins Air Force Base, Macon, Ga	A
Tinker Air Force Base, Oklahoma City, Okla	A
Wright-Patterson Air Force Base, Dayton, Ohio	A
Military pay and expenditure vouchers for activities not assigned for site or comprehensive audit [9]	D
Procurement surveys [10]	C

See footnotes at end of table.

DEPARTMENT OF THE ARMY

	Legend
Alaska communications system [11]	A
Civilian pay:	
Domestic	C
Foreign [5]	D
Cost-type contracts	C
Corps of Engineers (civil functions)	A
Guaranteed loan program under the Defense Production Act of 1950	A
Industrial funds:	
Army arsenals:	
Frankford Arsenal, Philadelphia, Pa	A
Picatinny Arsenal, Dover, N. J	A
Pine Bluff Arsenal, Pine Bluff, Ark	A
Redstone Arsenal, Huntsville, Ala	A
Rock Island Arsenal, Rock Island, Ill	A
Rocky Mountain Arsenal, Denver, Colo	A
Springfield Armory, Springfield, Mass	A
Watertown Arsenal, Watertown, Mass	A
Watervliet Arsenal, Watervliet, N. Y	A
Army Printing Service, St. Louis, Mo	A
Diamond Ordnance Fuse Laboratory, Washington, D. C	A
Dugway Proving Ground, Tooele, Utah	A
Maintenance Division, quartermaster depot at—	
Ogden, Utah	A
Richmond, Va	A
Manufacturing and Maintenance Division, quartermaster depot, Jeffersonville, Ind	A
Manufacturing Division, quartermaster depot, Philadelphia, Pa	A
Military pay and expenditure vouchers for activities not assigned for site or comprehensive audit [12]	D
Procurement surveys [10]	C

DEPARTMENT OF THE NAVY

Civilian pay:	
Domestic	C
Foreign [13]	D
Cost-type contracts	C
Guaranteed loan program under the Defense Production Act of 1950	A
Industrial funds:	
Defense Printing Service, Washington, D. C	A
Marine Clothing and Equipment Factory, Philadelphia, Pa	A
Military Sea Transportation Service	A
Naval Gun Factory, Washington, D. C	A
Naval Ordnance Laboratory, Corona, Calif	A
Naval ordnance plants at—	
Forest Park, Ill	A
York, Pa	A
Naval Powder Factory, Indian Head, Md	A
Naval Research Laboratory, Washington, D. C	A
Naval shipyards:	
Boston Naval Shipyard, Boston, Mass	A
Charleston Naval Shipyard, Charleston, S. C	A
Long Beach Naval Shipyard, Long Beach, Calif	A
Mare Island Naval Shipyard, Vallejo, Calif	A
New York Naval Shipyard, Brooklyn, N. Y	A
Norfolk Naval Shipyard, Portsmouth, Va	A
Philadelphia Naval Shipyard, Philadelphia, Pa	A
Portsmouth Naval Shipyard, Portsmouth, N. H	A
Puget Sound Naval Shipyard, Bremerton, Wash	A
San Francisco Naval Shipyard, San Francisco, Calif	A
Navy printing plants (23)	A
Military pay and expenditure vouchers for activities not assigned for site or comprehensive audit:	
Navy [15]	D
Marine Corps [14]	D

See footnotes at end of table.

	Legend
Navy Communications Service	C
Procurement surveys [10]	C
DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE	
Office of the Secretary	B
Office of Education	B
Food and Drug Administration	B
Office of Vocational Rehabilitation	B
Public Health Service	B
St. Elizabeths Hospital	B
Social Security Administration	B
RELATED ORGANIZATIONS	
Federally aided corporations: [15]	
Gallaudet College [16]	E
Howard University	E
DEPARTMENT OF THE INTERIOR	
Office of the Secretary	A
Bureau of Indian Affairs	A
Bureau of Land Management	A
Bureau of Mines	A
Bureau of Reclamation	A
Defense Minerals Exploration Administration	A
Fish and Wildlife Service	A
Geological Survey	A
National Park Service	A
Bonneville Power Administration	A
Southeastern Power Administration	A
Southwestern Power Administration	A
Territorial activities:	
Office of Territories	A
Alaska public works	A
Alaska Railroad	A
Alaska Road Commission	A
Governor of Alaska	A
Governor of Hawaii	A
Governor of Guam	A
Governor of American Samoa and government of American Samoa	A
Governor of the Virgin Islands and government of the Virgin Islands	A
Virgin Islands public works	A
Trust Territory of the Pacific Islands	A
Virgin Islands Corporation [6]	A
DEPARTMENT OF JUSTICE	
All offices and bureaus, except Federal Prison Industries, Inc., and Office of Alien Property	E
Federal Prison Industries, Inc.[6]	A
Office of Alien Property [17]	([17])
DEPARTMENT OF LABOR	
All activities	E
DEPARTMENT OF STATE	
International Boundary and Water Commission	A
International Cooperation Administration (including Institute of Inter-American Affairs)	A
All other offices and bureaus	G

See footnotes at end of table.

	Legend
DEPARTMENT OF THE TREASURY	
Office of the Secretary (departmental administration, analysis staff, international finance,[18] Legal Division)	E
Bureau of Accounts[19]	A
Bureau of Customs	A
Bureau of Engraving and Printing	A
Bureau of the Mint	A
Bureau of Narcotics	A
Bureau of the Public Debt	A
Comptroller of the Currency[20]	([20])
Internal Revenue Service	E
Office of the Treasurer of the United States	A
Office of Production and Defense Lending:	
Defense Lending Division	A
Federal Facilities Corporation[6]	A
Reconstruction Finance Corporation[6]	A
U. S. Coast Guard[21]	A
U. S. Savings Bond Division	E
U. S. Secret Service	E
POST OFFICE DEPARTMENT	
All activities	A
INDEPENDENT AGENCIES	
Advisory Committee on Weather Control[22]	E
Air Coordinating Committee[23]	E
Alexander Hamilton Bicentennial Commission[24]	C
American Battle Monuments Commission[25]	E
Atomic Energy Commission	A
Civil Aeronautics Board	A
Civil Service Commission	E
Civil-service retirement and disability fund	C
Commission of Fine Arts[26]	A
Export-Import Bank of Washington[6]	A
Federal Civil Defense Administration	E
Federal Coal Mine Safety Board of Review[27]	E
Federal Communications Commission	E
Federal Deposit Insurance Corporation[28]	A
Federal farm credit system:	
Farm Credit Administration	A
Corporations supervised:	
Intermediate credit banks (12)[6]	A
Production credit corporations (12)[6]	A
Federal Farm Mortgage Corporation[6]	A
Central Bank for Cooperatives[6]	A
Regional banks for cooperatives (12)[6]	A
Other[29]	([29])
Federal Home Loan Bank Board,[30] including Federal home loan banks (11)[6] and Federal Savings and Loan Insurance Corporation[6]	A
Federal Mediation and Conciliation Service	E
Federal Power Commission	E
Federal Reserve System[31]	([31])
Federal Trade Commission	E
Foreign Claims Settlement Commission of the United States	G
General Services Administration (including abaca-fiber program)[6]	A
Government Patents Board[32]	E
Housing and Home Finance Agency:	
Office of the Administrator	A
Community Facilities Administration	A
Federal Housing Administration[6]	A
Federal National Mortgage Association[6]	A
Public Housing Administration[6]	A
Urban Renewal Administration	A
Voluntary Home Mortgage Credit Program	A

See footnotes at end of table.

	Legend
International Organizations Employees Loyalty Board [32]	E
Jamestown-Williamsburg-Yorktown Celebration Commission [33]	C
John Marshall Bicentennial Celebration Commission [33]	C
National Advisory Committee for Aeronautics	A
National Capital Housing Authority	A
National Capital Planning Commission	E
National Labor Relations Board	E
National Mediation Board	E
National Science Foundation	E
National Security Training Commission [34]	E
National Selective Service Appeal Board [34]	E
Panama Canal Company [6] and Canal Zone Government	A
President's Committee on Government Employment Policy [35]	E
Railroad Retirement Board	A
Renegotiation Board	E
Rubber Producing Facilities Disposal Commission	A
Securities and Exchange Commission	E
Selective Service System	E
Soo Locks Centennial Celebration Commission [33]	C
Small Business Administration	A
Smithsonian Institution [35]	E
Subversive Activities Control Board	E
Tax Court of the United States	E
Tennessee Valley Authority [6] [36]	A
U. S. Information Agency	A
U. S. Tariff Commission	E
Veterans' Administration, including Veterans' Canteen Service	A
Veterans' Education Appeals Board	A
Woodrow Wilson Centennial Celebration Commission [33]	C
LEGISLATIVE BRANCH	
The Senate:	
Semi-annual accounts submitted by the Secretary of the Senate for salaries, mileage, and expense allowances of Senators	D
Quarterly accounts submitted by the Secretary of the Senate for all other expenditures	D
Senate restaurants (operated by Nationwide Food Service, Inc.) [37]	C
Other activities [38]	C
The House of Representatives:	
Sergeant at Arms: salaries, mileage, and expense allowances of Members, including operations of "house bank" [39]	C
Clerk of the House: Quarterly accounts submitted by the Clerk of the House for all other expenditures of the House (including revolving fund expenditures of joint Senate-House recording facility) [40]	D
Other activities [38]	C
Architect of the Capitol:	
House of Representatives restaurant [41]	C
All other activities	D
U. S. Botanic Garden [42]	E
General Accounting Office	E
Government Printing Office	A
Library of Congress	E
JUDICIAL BRANCH	
The Supreme Court of the United States [5]	F
United States courts of appeals [43]	F
District courts of the United States [43]	F
U. S. Court of Claims [43]	F
U. S. Court of Customs and Patent Appeals [43]	F
Territorial courts [43]	F

See footnotes at end of table.

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	Legend
U. S. Customs Court	E
U. S. Court of Military Appeals	E
Administrative Office of the United States Courts	E

OTHER AUDIT ASSIGNMENTS

District of Columbia government (including District of Columbia Redevelopment Land Agency)	A
Gorgas Memorial Institute of Tropical and Preventive Medicine, Inc.[44]	C
Government Services, Inc. (Including employee retirement and benefit trust fund)[45]	C

[1] Compensation paid on basis of certificate settlement prepared by Claims Division, General Accounting Office. Disbursing officers' statement of accountability thereon subsequently submitted to Division of Audits for audit and settlement.

[2] Administrative accounts are maintained by the National Park Service, Department of the Interior, through the Office of National Capital Parks.

[3] Funds are audited centrally in the General Accounting Office or at the site, depending upon the type of audit applied to the agencies to which funds are advanced for expenditure.

[4] Administrative accounts are maintained by the White House Office.

[5] Administrative accounts are maintained by the Bureau of the Budget.

[6] Audited under the Government Corporation Control Act (31 U. S. C. 841).

[7] Payrolls audited at site include duty and retired pay of commissioned officers.

[8] Payrolls are audited off site in Washington, D. C., by the Washington payroll audit staff.

[9] Audited by the Air Force Audit Branch, Denver, Colo.

[10] Represents comprehensive reviews of procurement policies and practices of the armed services.

[11] Receipts and disbursements therefrom accounted for by special disbursing agent in Seattle, and civilian payrolls are audited at site. Other financial transactions relating to appropriated funds are included in the accounts of the finance officer of the Army Regional Accounts Office, Oakland, Calif., which are submitted to the Army Audit Branch in Indianapolis for centralized audit.

[12] Audited by the Army Audit Branch, Indianapolis, Ind.

[13] Audited by the Navy Audit Branch, Cleveland, Ohio.

[14] Audited by the Marine Section, Civil Audit Branch, located at Naval Gun Factory, Washington, D. C.

[15] Partially supported by Federal funds, these corporations operate to a limited extent under the supervision of the Department of Health, Education, and Welfare.

[16] Audited by the General Accounting Office pursuant to law (68 Stat. 265; D. C. Code 31, ch. 10).

[17] The activities of the Office of Alien Property are not financed with appropriated funds and no audit of such activities is made by the General Accounting Office. In the opinion of the Comptroller General, specific legislation would be required to permit the General Accounting Office to make such an audit.

[18] Exclusive of transactions in the United States exchange stabilization fund established by the Gold Reserve Act of 1934 (48 Stat. 337; 341, as amended). In view of the legislative history of this act it is the opinion of the Comptroller General that an audit of the fund by the General Accounting Office is neither authorized nor required under existing legislation.

[19] Audit work in the Bureau of Accounts includes the following:

(*a*) Verification of appropriation transfer authorizations (S. F. No. 1151).

(*b*) Necessary verification and countersignature for the Comptroller General of adjustment and surplus warrants.

(*c*) Necessary verification of legal authority and availability of funds preparatory to countersignature of appropriation warrants by the Comptroller General.

[20] The activities of the Comptroller of the Currency are financed by assessments on national banks and member banks of the Federal Reserve System. The law (12 U. S. C. 481) provides that such funds shall not be construed to be Government funds or appropriated moneys and no audit thereof is made by the General Accounting Office. In the opinion of the Comptroller General, specific legislative authority would be required to permit the General Accounting Office to make such an audit.

[21] Military pay cards for Coast Guard personnel are sent each 6 months to Coast Guard Headquarters in Washington where they are audited by the General Accounting Office.

[22] Administrative accounts are maintained by Office of the Comptroller, General Services Administration.

[23] Administrative accounts are maintained by Office of the Secretary, Department of Commerce.

[24] Administrative accounts are maintained by the Office of Administrative Services, Department of the Treasury.

[25] Domestic payrolls only are audited at the site, foreign payrolls are audited offsite by the Washington Payroll Audit Staff.

[26] Administrative accounts are maintained by the Office of the Secretary, Department of the Interior.

[27] Payrolls are serviced by Subversive Activities Control Board.

[28] Audited under the Federal Deposit Insurance Act (12 U. S. C. 1827).

[29] Consists of approximately 1,100 national farm loan associations, 498 production credit associations (415 privately owned and 83 partially capitalized by production credit corporations), and 12 Federal land banks (privately owned), none of which are audited by the General Accounting Office.

Footnotes continued on next page.

The comprehensive audit

Audits at the site where the accounts and related documents are kept consist of "comprehensive audits" and "other site audits." A distinction lies in the objectives established in each case, the objectives of other site audits being less than, but including in varying degrees, the objectives of comprehensive audits.

The principal types of audits included in the category of "other site audits" are civilian payroll audits and contract audits such as audits of cost-type contracts or fixed-price contracts with price redetermination clauses. Comprehensive audits, as defined by the General Accounting Office, consist of those audits having as their purpose a determination of how well the agency or activity under audit has discharged its financial responsibilities. Financial responsibilities are construed as including the expenditure of funds and the utilization of property and personnel in the furtherance only of authorized programs or activities and the conduct of programs or activities in an effective, efficient, and economical manner. The audit objectives are to determine:

1. That the agency is carrying out only those activities or programs authorized by the Congress and is conducting them efficiently and in the manner authorized.

2. That expenditures are made only in the furtherance of authorized activities and in accordance with the requirements of applicable laws and regulations, including decisions of the Comptroller General.

3. That the agency collects and accounts properly for all revenues and receipts arising from its activities.

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[30] Established as an independent agency by Housing Amendments of 1955, approved Aug. 11, 1955 (Public Law 345).

[31] Not audited by the General Accounting Office in view of (1) the broad authority conferred upon the Board of Governors to determine and prescribe the manner of incurring obligations and to pay its expenses, (2) the fact that funds used to defray the expenses of the Board are not Government funds or appropriated moneys, and (3) the rule, as set out in 12 U. S. C. 484, that no bank is subject to any visitorial powers other than those authorized by law, or vested in the courts, or as shall be exercised or directed by the Congress or by either House thereof or by any committee of Congress or of either House duly authorized.

[32] Administrative accounts are maintained by U. S. Civil Service Commission.

[33] Administrative accounts are maintained by National Park Service, Department of the Interior.

[34] Administrative accounts are maintained by Selective Service System.

[35] Applies only to the administrative expenses of the Institution which are paid from appropriated funds. In addition to such funds, the Institution administers the original Smithson endowment and a number of other trusts which are not audited by the General Accounting Office.

[36] The retirement system of Tennessee Valley Authority is audited by independent public accountants under contract with the General Accounting Office.

[37] Onsite audit made at request of Senate Committee on Rules and Administration.

[38] Other specific audits made on request.

[39] Semiannual on-the-spot audit made by the General Accounting Office pursuant to law (63 Stat. 482).

[40] An onsite audit of the House stationery room is made when requested by the Clerk of the House. An onsite audit of the joint Senate-House recording facility is made when requested by the Secretary of the Senate and the Clerk of the House. Other specific audits are made on request.

[41] Onsite audit made by the General Accounting Office pursuant to law (40 U. S. C. 174k).

[42] Administrative accounts are maintained by the Library of Congress.

[43] Offsite audit of payrolls made by the Washington Payroll Audit Staff in the Office of the Administrator, United States Courts, Washington, D. C.

[44] Annual audit made pursuant to law (22 U. S. C. 278a).

[45] Annual audit made on request.

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4. That the assets of the agency or in its custody are adequately safeguarded and controlled and utilized in an efficient manner.

5. That reports by the agencies to the Congress and to the central control agencies, such as the Bureau of the Budget, disclose fully the nature and scope of activities conducted and provide a proper basis for evaluating the agencies' operations.

A comprehensive audit is intended to be an analytical and constructive examination of an agency and its activities. While the goal is an evaluation of the agency's financial responsibilities, the scope of the comprehensive audit extends to all of an agency's operations and activities and to all of their aspects.

The satisfactory completion of this type of audit, in addition to fulfilling the audit responsibilities imposed on the Comptroller General, enables the General Accounting Office to furnish assistance to the Appropriations Committees and to the Bureau of the Budget in connection with their consideration of annual budget estimates and to furnish more satisfactory comments to the Congress on substantive legislation affecting the operations of the various agencies.

While General Accounting Office auditors are not empowered to direct changes in policies, procedures, and functions, they do observe opportunities for improving efficiency and for obtaining better results. When warranted, they make recommendations for simplifying and developing more effective operating procedures and eliminating those procedures which involve duplication or which do not serve a purpose commensurate with the costs involved.

Difference between comprehensive audits and centralized voucher audits

The comprehensive audit differs in a number of significant respects from the centralized voucher audit, the type of audit applied in the case of those agencies that are still required to send accounts, contracts, vouchers, and other supporting documents to a central point for audit.

The centralized voucher audit consists of the examination of expenditure and collection vouchers and related documents submitted periodically in support of financial transactions of Government officers having personal accountability for public funds. The main objectives of this type of audit are to determine whether expenditures are made legally and solely for the objects for which appropriations were made. The extent of detailed voucher examination in this type of audit is not regulated by the effectiveness of operating or administrative controls exercised by an agency over its financial transactions except indirectly based on past audit experience.

In contrast, the comprehensive audit is performed at the site of operations, its scope encompasses the agency as a whole and its activities, and the extent of detailed examination work is governed by the adequacy and effectiveness of the controls exercised by the management over its operations, as determined by a study and testing of those controls.

Legislative aids to the comprehensive-audit program

Although the General Accounting Office comprehensive-audit program was initiated prior to the passage of the Accounting and Auditing Act of 1950, the Comptroller General reports that the provisions

of that act have been of the utmost importance in the development of this enlightened program. Reference has been made to the salutary effect of section 117 (b) requiring any administrative agency, upon the determination of the Comptroller General, to retain its accounts, contracts, vouchers, and related documents rather than to transport them to the General Accounting Office.

Section 111 (d) provides that the auditing for the Government, conducted by the Comptroller General of the United States as an agent of the Congress, be directed at determining the extent to which accounting and related reporting fulfill the purposes specified, that financial transactions have been consummated in accordance with laws, regulations or other legal requirements, that adequate internal financial control over operations is exercised, and affords an effective basis for the settlement of accounts of accountable officers.

In section 111 (a) it was stated to be the policy of the Congress that the accounting of the Government provide full disclosure of the results of financial operations, adequate financial information needed in the management of operations and the formulation and execution of the budget, and effective control over income, expenditures, funds, property, and other assets.

Section 117 (a) provides that, except as otherwise specifically provided by law, the financial transactions of each executive, legislative, and judicial agency, including but not limited to the accounts of accountable officers, shall be audited by the General Accounting Office in accordance with such principles and procedures and under such rules and regulations as may be prescribed by the Comptroller General of the United States. In the determination of auditing procedures to be followed and the extent of examination of vouchers and other documents, the Comptroller General shall give due regard to generally accepted principles of auditing, including consideration of the effectiveness of accounting organizations and systems, internal audit and control, and related administrative practices of the respective agencies.

The foregoing provisions provided needed authority for modernizing and expediting the auditing for the Federal Government. They give specific authority to the Comptroller General, in determining the auditing procedures to be followed and the extent of examination of vouchers and documents, to give due regard to generally accepted principles of auditing, including consideration of the effectiveness of accounting organizations and systems, internal audit and control, and related administrative practices. This has made possible the extension of selective examinations and has provided specific statutory recognition of the comprehensive audit program.

As the quality of agency accounting improves, the amount of detailed auditing required to be performed by the General Accounting Office is reduced. This enables that Office to devote further effort and energy to appraising the overall effectiveness of the discharge of the agencies' financial responsibilities, and to supply the Congress with information needed in the appraisal of program operations, budgetary requests, and fiscal legislation. At the same time it affords an effective basis for settling the accounts of accountable officers without sacrificing any necessary controls over receipts and expenditures.

The availability at the site of additional documents, records, and other information relating to financial transactions or programs under

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audit permits consideration of all aspects of such transactions and enables the auditor to make a more effective audit than would otherwise be possible. The timely statement of audit findings facilitates recovery of illegal, unauthorized, or erroneous expenditures; enables correction of faulty administrative practices; and avoids continuation of such expenditures and practices.

Another legislative aid to the comprehensive audit program is that provided by section 206 (c) of the Federal Property and Administrative Services Act of 1949 (63 Stat. 391; 40 U. S. C. 487). That act was designed to promote, among other things, more economical and efficient property management for the Government. The General Accounting Office was specifically authorized to audit all types of property accounts and transactions at such times and in such manner as determined by the Comptroller General. These audits are to be conducted as far as practicable at the place or places where the property or records of the executive agencies are kept and shall include but not necessarily be limited to an evaluation of the effectiveness of internal controls and audits, and a general audit of the discharge of accountability for Government-owned or controlled property based upon generally accepted principles of auditing. As indicated by the comments and recommendations contained in the General Accounting Office reports with respect to the subject of property management and accountability, it is the committee's opinion that there needs to be further improvement on the part of the executive agencies.

The onsite audit as an effective aid in the application of the accounting provisions of the 1950 act

While the improvements in accounting which result from the Accounting and Auditing Act of 1950 are not the main subject matter of this report, it is reported that the extension of the onsite audit activities of the General Accounting Office has aided materially in the effective application of the accounting provisions of that act in several significant respects.

Simplification of the procedures for issuing and countersigning warrants was undertaken prior to the passage of the Accounting and Auditing Act of 1950 but there were definite limitations on what could be accomplished under existing law. Section 115 (a) of the 1950 act authorized the Secretary of the Treasury and the Comptroller General to issue joint regulations providing for the waiving of requirements that warrants be issued and countersigned in connection with the receipt, retention, and disbursement of public moneys and trust funds. These requirements were intended to provide safeguards and controls, and pursuant thereto warrants were issued by the Treasury Department and countersigned in the General Accounting Office in connection with such matters as setting up appropriations on the books of the Government, transfers and adjustments between appropriations, writing off of expired appropriation balances, and advancing of funds to disbursing officers. The authority to waive these requirements had resulted in simpler and more efficient procedures based on full utilization of effective accounting and internal controls established in the operating agencies, supplemented by General Accounting Office audits at the site of operations. The Comptroller General reports that not only was the number of warrants requiring counter-

signature reduced in 3 years' time from 52,370 to 3,691, but the maintenance of a large number of duplicate ledger accounts was eliminated, and the elapsed time required for making funds available for disbursement was reduced considerably.

Section 116 authorizes the Comptroller General to discontinue the maintenance in the General Accounting Office of appropriation, expenditure, limitation, receipt, and personal ledger accounts when in his opinion the accounting systems and internal control of the other agencies are sufficient to enable him to perform properly the functions to which such accounts relate. The requirement for submission by the various agencies of the Government of monthly accounting reports to the General Accounting Office on the status of appropriations was completely eliminated, on recommendations of this committee, following staff studies on duplicating reports then required by the GAO and the Department of the Treasury (Standard Forms 1116, 1117, and 1118; Staff Memorandums Nos. 80–1–37 and 80–1–40, 1947).

Monthly preparation and submission to the General Accounting Office of reports covering analyses of disbursements or collections by appropriation limitations were eliminated in several agencies upon a determination of the adequacy of agency procedures combined with periodic General Accounting Office onsite audits or other inspection. This requirement has now been eliminated with respect to all agencies of the Government.

Additional savings have been effected through the joint program for improving accounting established by the GAO, Department of the Treasury, and the Bureau of the Budget by extending these studies and analyses into the use and need of other reports, forms, systems, and procedures followed by the departments and agencies in carrying out their responsibilities. These include the administrative examination of fiscal officers' accounts, civilian travel procedures and regulations, inventory control of supplies and equipment, and utilization of personal property, voucher payment and collection procedures, and many other forms and internal operating procedures, as indicated in Staff Memorandums Nos. 80–2–32, 81–2–63, and a press release issued by the chairman of this committee on January 18, 1950. The chairman pointed out in this statement to the press that these studies by the staff and participating agencies had effected savings running into millions of dollars.

A revised voucher form and simplified procedures resulted in substantially reducing repetitive handling of vouchers and related operations. A voucher consisting of a list of payees approved by the agency's certifying officer is submitted to the disbursing officer as authorization for the payments to be made. Basic supporting documents are retained by the agency office and no longer have to be handled by the disbursing officer and by the central office of the agency in Washington. This system was extended to each agency for which an onsite audit was authorized. Experience gained in these audits has enabled the General Accounting Office to extend this procedure to all agencies of the Government.

The requirement for submission of advance copies of schedules of collections to the General Accounting Office, and the operations relating thereto, have been eliminated for the entire Government and other repetitive operations in connection with the collection of moneys

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were reduced in some agencies by complete elimination of the preparation of collection schedules and by direct deposit of collections with the Treasurer of the United States or designated depositaries, rather than through disbursing officers. Schedules of collections were eliminated in those agencies subject to onsite audit. They have now been eliminated with respect to all agencies of the Government. Onsite audits also provide a method for following up on the effectiveness of improvements in agency accounting systems made pursuant to the accounting provisions of the 1950 act.

Organizational changes facilitating progress in auditing

The President signed the Budget and Accounting Procedures Act of 1950 on September 12, 1950. Within 45 days the Comptroller General ordered the abolishment of the Accounting and Bookkeeping Division of the General Accounting Office. Subsequently, all accounts previously maintained for appropriations, expenditures, limitations, and receipts, as well as public debt accounts, personal accounts with accountable officers and other miscellaneous accounts were discontinued. This action was taken on the basis of an intensive and detailed review of the organizational structure and functions of the General Accounting Office, commenced some time before the enactment of the new legislation, and coordinated with a similar review and analysis of the operations of the Treasury Department. This resulted in a reduction of 264 employees and an annual salary saving of nearly $1 million in the General Accounting Office, as well as substantial savings in the accounting program of the Department of the Treasury.

The Post Office Department Financial Control Act of 1950, approved August 17, 1950 (64 Stat. 460, 39 U. S. C. 794), transferred to the Postmaster General the accounting and reporting functions formerly performed for the Post Office Department by the General Accounting Office, and provided for a comprehensive site audit of the financial transactions of the Department by the General Accounting Office. This act did for the Post Office Department what the Budget and Accounting Procedures Act of 1950 did for the Government as a whole, and brought about the abolition of the Postal Accounts Division of the General Accounting Office and the creation of a new Postal Audit Division.

On May 14, 1951, a new staff position of Director of Audits was set up to coordinate the comprehensive and other audit programs of the General Accounting Office. The Director was charged with the authority and responsibility for the overall planning, programing, and correlation of the audit work. Based on the results achieved, all the auditing divisions of the General Accounting Office, exclusive of the Transportation Division, were consolidated into a new division designated as the Division of Audits and headed by the Director of Audits. By this consolidation, which took place on January 18, 1952, the Audit Division, the Corporation Audits Division, the Postal Audit Division, and the Reconciliation and Clearance Division were abolished.

Following the establishment of the Division of Audits, regional audit offices were established to perform all auditing required in connection with comprehensive and other site audit programs of the General Accounting Office conducted outside the metropolitan area of Washington, D. C. These regional offices, of which there are now 19,

were established in principal cities throughout the country to supplant area or district offices formerly engaged mainly in the audit of cost-type contracts and civilian payrolls in the field. This has resulted in more effective utilization of audit personnel, has facilitated the expansion of onsite audits of agencies in the field, and has assisted in the recruitment and employment outside of Washington of the specialized talents required in the performance of the comprehensive audit program. In addition, the audit of nearly all payments of compensation to civilian employees within the United States and its Territories is now made at the location of the pertinent pay records.

Centralized audits conducted by the General Accounting Office Civil Audit Branch in Washington, D. C., its Army Audit Branch in Indianapolis, its Navy Audit Branch in Cleveland, and its Air Force Audit Branch in Denver, were reorganized on an agency or activity basis with emphasis on the selective audit approach.

A new realinement of auditing and accounting work in the General Accounting Office has been discussed with the staff of this committee, and will soon be put into operation by the Comptroller General. It is designed to further strengthen and improve coordination in the General Accounting Office accounting and auditing relationships with the executive agencies and to permit more effective utilization of personnel. The present approach to auditing will continue, but with added emphasis on the constructive aspect in General Accounting Office reporting.

Activities of the European Branch, GAO

A European Branch of the General Accounting Office was established after the end of the 1952 fiscal year to perform audit, investigative, legal, and other functions of the Office in the European area. The headquarters of the European Branch is in Paris with suboffices in London, Frankfurt, Madrid, and Rome. The House Committee on Appropriations stated, in providing the first funds for this new activity, that "This * * * program is of utmost importance at the present time to enable GAO to keep check on programs abroad where so many American dollars are being expended."

In November 1952, the European Branch of the General Accounting Office called to the attention of the staff of the committee certain deficiencies then existing in the fiscal and contract operations of the Office of the Commanding General of the United States Army of Europe. These deficiencies related primarily to improper administration of the purchasing and contracting activities of the Communications Zone Command (ComZ). The chairman of the committee summarized the findings of the General Accounting Office in a letter to the Secretary of Defense, requesting information as to what action was being taken to correct these conditions. The Department of the Army reported, on behalf of the Secretary of Defense, on July 10, 1953, that a program had been initiated to remedy the structural deficiencies in management control, and assured the committee that corrective procedures would be fully implemented.

The Comptroller General, in following through on this project, notified the chairman of the committee, under date of February 18, 1954, that—

> * * * A corrective program, with which we concur, was instituted by the command to remedy deficiencies in management controls for contract administra-

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tion. Copies of this program were furnished by the Department of the Army to the Committee on Government Operations and to this Office.

The establishment of the Joint Construction Agency reduced the operating responsibilities of ComZ. The new agency, as a single authority, was directed to administer all construction work in Western Europe (except Spain) for the Army, the Navy, and the Air Force. As a constructive precaution the Director of the European Branch of the General Accounting Office held discussions with the commanding general of the Joint Construction Agency to review the management deficiencies existent in the ComZ command, so that similar problems might be avoided in the future.

The committee has since been informed that, as a result of the close cooperation between the European Branch of the General Accounting Office and the Director of JCA, many strengthened procedures were adopted at the time JCA was organized, which were designed to prevent the deficiencies and weaknesses which had existed in the ComZ operations. The European Branch is examining on a continuous basis the contracting activities in all three JCA districts.

The General Accounting Office reports that, during the past year, its representatives have reviewed Army supply activities in Europe. Deficiencies in supply-control center and depot operations were reported to the proper commands in Europe and to the Department of the Army. An indication of the usefulness of these reports was the response which the General Accounting Office received from the Assistant Secretary of the Army in charge of Logistics and R and D, when he stated that—

Your office has rendered valuable assistance in pointing up areas which require attention, and I wish to assure you that the Department of the Army appreciates your interest and assistance, and will make maximum use of your reports in its continuing efforts to improve supply management.

The Comptroller General also reports that the European Branch of the General Accounting Office is presently conducting extensive reviews of supply, procurement, and fiscal activities in other agencies and departments of the Government operating in Europe. Deficiencies noted are being brought to the attention of appropriate officials on the local level as well as departmental level when required. In view of the committee's concern in the elimination of operating deficiencies and the improvement of these programs, the staff of the committee has been directed to give immediate attention to reports of the Comptroller General to the Congress on these activities.

Contract audits

Audits of claims for reimbursement of expenditures incurred by private contractors under cost-type contracts with the Government have undergone constant improvement in technique and procedures. Added emphasis has been placed on examinations of the contractors' accounting systems and internal controls over contract work with less emphasis, where warranted, on detailed examinations of vouchers.

Other improvements have resulted from use by the General Accounting Office, to the fullest extent practicable, of the audit work performed by the auditors for the military departments and other administrative agencies.

These techniques are also being applied in the General Accounting Office audit of fixed price contracts with price redetermination clauses which are being used to a much greater extent than the formerly predominant cost-type contracts.

In order to facilitate General Accounting Office access to the records of private contractors and subcontractors doing business with the Government, this committee recommended the approval of legislation (S. 921, S. Rept. No. 603, 82d Cong.) which was enacted as Public Law 245 on October 31, 1951 (65 Stat. 700). This act added a new subsection to the Federal Property and Administrative Services Act of 1949 and the Armed Services Procurement Act of 1947, providing that all contracts negotiated without advertising pursuant to authority contained in the acts shall include a clause to the effect that the Comptroller General of the United States or any of his duly authorized representatives shall, until the expiration of 3 years after final payment, have access to and the right to examine any directly pertinent books, documents, papers, and records of the contractor or any of his subcontractors engaged in the performance of and involving transactions related to such contracts or subcontracts. The Congress had provided this requirement with respect to contracts entered into, modified or amended, pursuant to section 201 of the First War Powers Act of 1941, as amended (50 U. S. C. 611). Also, this special safeguard was made applicable to contracts negotiated by the Atomic Energy Commission (sec. 166, Atomic Energy Act of 1954, 68 Stat. 919).

In July 1953, the chairman received a complaint from a New York clothing manufacturer that the Armed Services Textile and Apparel Procurement Agency had awarded a contract (TAP–1822) for the manufacture of 6½ million sailor hats to a supplier who had no plant, equipment, or previous experience in the manufacturing of this highly technical type of clothing.

At the direction of the chairman, on July 21, 1953, the staff of the full committee made a routine inquiry into the development of Navy requirements, the processing of the procurement papers, and the award of this specific contract, together with an analysis of the performance by the successful bidder. This staff study developed the following facts in connection with this complaint: (1) The annual requisition and the mobilization requirements were combined; (2) the preaward survey was inaccurate and incomplete; (3) there was a large disparity in unit price; (4) although the manufacturer's facilities were subsequently located in Puerto Rico, there was no indication in the bid that the manufacture of the caps would be performed outside continental United States; and (5) that material furnished by the Government from Mechanicsburg, Pa., was delivered to the manufacturer on time, but that the material shipped from Brooklyn (home of ASTAPA) was delayed in transit for 45 days. In addition to these unusual circumstances, the contractor contended that he could not start manufacturing until the Brooklyn material arrived, hence he made a request for a 45-day extension of the contract. This position, in the view of the staff, was not sustained by the facts. These, and other unusual facts and conditions developed by the staff in regard to this contract, indicated that further attention would be required to fully ascertain whether there were any irregularities involved in awarding the contract. Accordingly, on July 30, 1953, the chairman of the committee transmitted a letter to Brig. Gen. R. P. Hollis, commanding officer of ASTAPA, requesting a complete report on the contract.

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In view of the highly specialized nature of this inquiry, the technical aspects involved, and the need for prolonged investigation at the Armed Services New York Procurement Office, it was deemed inadvisable to assign members of the committee's professional staff to the New York area, since their experience in this field was limited, and their services were required for regular legislative duties. Accordingly, on March 26, 1954, the General Accounting Office was requested to assign specialized personnel to conduct an investigation, in cooperation with the staff, into the facts and circumstances surrounding the award of this contract.

By letter dated November 22, 1954, the GAO submitted to the chairman of the committee a report of its investigation, which revealed numerous irregularities, including changes in packing hats for shipment without a change order or adjustment in price; unauthorized extension of the contract; and an unusually high rejection rate. (See also the annual report of the Comptroller General of the United States, 1955, pp. 21–22.) Subsequent investigations indicated that there was evidence of collusion and possible bribery involved in the case. Therefore, at the suggestion of the staff, and at the direction of the chairman, the report of investigation prepared by the GAO, together with information developed by the staff of the full committee, was transmitted to the Permanent Subcommittee on Investigations on November 23, 1954, for further investigation preparatory to public hearings, which were held intermittently from January 28 to July 19, 1955.

In its report to the Senate (S. Rept. No. 1380, 84th Cong.) the Permanent Subcommittee on Investigations stated:

> In hearings recently held by the subcommittee more than mere waste and inefficiency were developed. The subcommittee was confronted with graft and corruption.
>
> On the basis of information given to the subcommittee, and after preliminary staff investigation, evidence was first presented on January 28, 1955, to the subcommittee, showing that unscrupulous contractors had bribed and connived with both civilian employees and armed-services officers attached to the Armed Services Textile and Apparel Procurement Agency to improperly favor contractors in the award and administration of contracts.
>
> Evidence before the subcommittee clearly demonstrated that inspection-service personnel had likewise been corrupted to permit thousands of defective caps to be delivered to the Navy.
>
> It is felt that pointing the searchlight of exposure upon instances of fraud, corruption, bribery, and inefficiency can show the road to corrective measures. Such exposure, it is believed, has a salutary effect upon both contractors dealing with the Government and officers and civilians of Government agencies. The purpose of these hearings was not only to uncover the existence of the abuses, but also to serve notice on others guilty of similar infractions that these practices will not be tolerated.
>
> The subcommittee wishes to express its appreciation for the cooperation and assistance given by the General Accounting Office * * *.

In its annual report (S. Rept. No. 1444, 84th Cong.) the subcommittee concluded:

> At the request of the subcommittee the Defense Department made a new study of the claims against the contractors in the light of the evidence developed at the hearings. This study revealed that a total of $511,475.63 is due to the Government from these contractors on these claims, and it is the committee's understanding that these claims are now being processed for collection. * * *
>
> As a direct result of the hearings the Quartermaster Corps instituted a new practice of letting contracts on patented items which were included as specifications in the manufacture of armed services hats and caps. A contract was let for the manufacture of 750,000 metal stays and grommets at an estimated savings in cost of 46½ cents per hat. Such items will be given to the contractors as

"Government furnished property" with a resultant savings to the Government of 46½ cents per hat over previous costs. Thus on a future procurement contract of only 1 million hats the savings to the Government will amount to $465,000 by this simple rectification of procurement practice which resulted from the subcommittee hearings.

Procurement audits

In view of the vast expenditures of the military departments, the General Accounting Office has devoted more and more of its efforts to auditing procurement actions of these departments. The auditors have emphasized the need for timely corrective action to eliminate wasteful practices and have stressed the necessity for adoption of sound businesslike methods by contracting and procurement officers to assure that proper value is received for the vast sums appropriated for the procurement of military items.

These audits have covered such matters as failure to solicit competitive proposals, inadequate preaward surveys for appraising contractors' technical or financial ability, improper usage and inadequate negotiation of price redetermination type contracts, lack of proper recognition of reduction in contractors' normal risks in arriving at profit rates under contracts providing for upward price revisions, payment of widely varying prices for identical items, inadequate inventory controls, loose administration of contract provisions, failure to secure reproduction rights to certain military vehicles or components developed at Government expense, and failure to maintain proper files dealing with various procurement actions. It is not possible to assess all the results achieved by these examinations in terms of specific dollar savings. The Secretary of the Army, in a letter of October 31, 1952, advised the Comptroller General, however, that "because of the many matters you have brought to our attention which enabled us to take vigorous corrective action, I feel that actual savings of millions of dollars have resulted."

Further comments on this phase of the audit activity are included in this report under the appropriate sectional analysis.

Audit reports submitted to the Congress

The appendix of this report lists 378 audit reports submitted by the Comptroller General to the Congress or to committees of the Congress from January 1, 1947, to January 16, 1956. These reports were submitted as follows: 80th Congress, 56 (including 6 to 79th Cong.); 81st Congress, 71; 82d Congress, 60; 83d Congress, 95; and 96 submitted so far during the 84th Congress.

Audit report policies and practices

The provisions of law dealing with the work of the General Accounting Office do not, in most cases, specify how audit reports are to be prepared, what is to be contained in them, or how or when they are to be submitted. These matters are left generally to the judgment of the Comptroller General. The audit report policies and practices of the General Accounting Office, as they exist today, have accordingly been evolved in the light of specific statutory requirements, where they do exist, and by giving due regard to the needs, requirements, and desires of the Congress, its committees, and officials of Government agencies, insofar as they have been communicated to the General Accounting Office.

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As a part of each comprehensive audit, it is the policy of the General Accounting Office to prepare reports on audit findings as a basis for information and appropriate action, where necessary. Reports on audit findings are prepared for transmission to the Congress as a whole if—

1. They are required by specific provisions of law (for example, the Government Corporation Control Act, the Federal Deposit Insurance Act, and the act establishing the Bureau of Engraving and Printing Fund).
2. They contain recommendations for legislative action.
3. They contain information which may be of interest, concern, or use to the Congress, or its committees, in their work relative to the activities of the agency audited.

Copies of reports sent to the Senate are referred to this committee for review and analysis under the Standing Rules of the Senate. In addition, it is the policy of the General Accounting Office to send copies of such reports to specific legislative committees and appropriations subcommittees, depending upon the subject matter, and to the President, the Director of the Bureau of the Budget, the Secretary of the Treasury, and appropriate officials of the audited agency, for their information and use.

Reports based on audit work are sent to a specific congressional committee and not to the Congress as a whole when: (1) The work has been done or a specific inquiry has been made at the direct request of a congressional committee, or (2) the subject matter appears to be of interest or concern only to jurisdictional committees.

Reports on audit findings are prepared and submitted to agency officials when: (1) The findings, conclusions, and recommendations deal with matters not requiring action by the Congress and not found by experience to be sufficiently significant to be of concern to the Congress, or (2) an official agency review of certain findings is to be obtained before submitting a report to the Congress.

It is also the practice of the General Accounting Office to send to the agency concerned a draft copy of each audit report proposed to be submitted to the Congress. This tends to assure that complete and correct information will be included in the report. It also gives the General Accounting Office an opportunity to consider the views of top officials in the agency, and to include these views in the report if such information would be helpful to the Congress. The Chairman of the Civil Aeronautics Board stated in a letter dated November 10, 1955, to the General Accounting Office that—

> Affording the Board an opportunity to comment on the proposed report is further evidence of the very constructive approach being taken by the General Accounting Office in its study of the Board's operations. We hope the comments submitted will be helpful and discussion thereof, if desired, will gladly be arranged.

In recognition of this policy, this committee submitted the various analyses contained in this report to the respective agencies for their comments. Where such views were submitted, they will thus be available for consideration by the appropriate committee in connection with any legislative action that may be proposed to implement the various General Accounting Office recommendations to the Congress.

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Reports to agencies may take the form of letters to local agency officials or they may be issued in more formal style and addressed to the agency head in Washington. Where the agency is a part of a major department, copies of the report to the agency head are also normally sent to an official of the department. In some cases, such reports are addressed to the cognizant department official and may, on occasion, be addressed to the department head. In all cases, copies of reports to agency heads are sent to the Bureau of the Budget for use in carrying out its budget and management responsibilities.

Value of GAO audits to agencies

The General Accounting Office auditors work in close cooperation with the officials of the departments and agencies at the operating sites. In many cases, it is at the regional and field office level where corrective action can be initiated and improvements adopted most effectively. In preparing the report to the agency head, as in the case of preparing reports intended to be transmitted to the Congress, the General Accounting Office representatives discuss and review the findings with those directly responsible for the operations at the site. This procedure has proven beneficial. At the request of the committee, the GAO supplied the following typical expressions of this reaction of executive officials to this practice. The committee has been informed that similar expressions have been received from practically all agencies that are being audited on a comprehensive basis.

In a letter dated January 21, 1955, to the General Accounting Office, a deputy regional director of the General Services Administration, stated:

> In December you and members of your staff conferred with us concerning the results of your audit of Federal supply operations. This was in advance of formalizing your report for submission through channels to your Washington office.
>
> I want to express to you my sincere appreciation for this opportunity, because it seems to me this represents a constructive approach to the audit program, and I feel as a result of it you and your office have contributed tangibly to better management in my organization.

A regional comptroller of the General Services Administration stated, in a letter dated February 11, 1955, to the General Accounting Office, that "As we have commented to you, personally, in meetings about your audit, the benefits derived by our office are far more extensive and beneficial than is sometimes evidenced by the final, summarized, condensed report."

The benefits derived from General Accounting Office audits at the site are further illustrated by the following statement in a memorandum dated April 27, 1954, from the Deputy Administrator for Veterans' Benefits to the Manager of the Veterans' Benefits Office:

> On several occasions during the past several months this Office was contacted by GAO officials during the course of their recent audit of the V. R. and E. program in the Washington regional office. These discussions served a twofold purpose, i. e., (1) determining whether field offices are correctly interpreting regulations pertaining to this program and (2) whether the regulations as presently constituted clearly accomplish the purpose for which they were originally published. These contacts have proven to be helpful, and in fact have resulted in amendments to the regulations or additional instructions to field offices through other media.

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The Assistant Postmaster General, Bureau of Finance, in a letter submitting the Department's comments on a General Accounting Office report of September 13, 1955, stated that:

We will be glad to discuss these matters with you or your staff in more detail or provide any further information you may desire. We appreciate the helpfulness of these reviews by your organization and the day-to-day assistance that we receive from your staff stationed with us.

The Director of the Bureau of Standards commented on the General Accounting Office draft of the 1954 report as follows:

We at the Bureau recognize that the content of an audit report such as this is your responsibility. We cannot reasonably presume to advise you as to the policy you should follow with respect to the treatment which should be given any particular subject. An examination of the draft shows that your staff assigned at the Bureau has a good understanding of the Bureau's problems. This is perhaps an appropriate time for me to express to you the appreciation the Bureau has felt for the fine quality of the auditors who have recently worked with us.

The Chief of Engineers, Department of the Army, in commenting on the audit reports prepared by auditors of the General Accounting Office for each division except Ohio River and North Pacific, and on the overall report on the accounting procedures which embraced all divisions having civil works activities, took a firm position for corrective action, where the deficiency reported was substantiated. In a communication to his staff, on November 23, 1955, regarding these audit reports, Lt. Gen. S. D. Sturgis, Jr., stated:

* * * I am particularly concerned about those findings revealing uneconomical practices and procedures, staffing and organization inconsistencies, and accounting deficiencies for which adequate justification does not exist. Many of these instances involve nonconformity with policies and procedures established in Orders and Regulations which should have been discovered and corrected by our own personnel during the course of normal operations without waiting for an outside agency to discover and present them in an official report.

In addition, I have noticed a tendency on the part of some offices to "fight the problem" and defend their positions rather than to acknowledge an impartial and constructive criticism. I have found this attitude not only toward the findings of the GAO auditors but toward our own division auditors. This attitude is one that I have noticed has grown throughout the Corps increasingly over a period of many years. It will no longer be condoned and I expect it to be corrected without further delay. I further expect division engineers not only to assure compliance but to be vigilant for violations. Bluntly speaking, orders are orders, and will be obeyed. In any case where a division engineer considers a seriously adverse effect will result in case of his particular division, he will bring it to the attention of the Chief of Engineers or the Deputy Chief of Engineers for Construction; otherwise he will promptly and efficaciously enforce it.

It is essential that a recurrence of the untenable aspects discussed herein be avoided by concerted and continuing improvement in supervisory followthrough at all organizational levels. I am having a study made in my office to determine the need for changing or clarifying policies and procedures in orders and regulations to produce more effective guidance. It is expected that division engineers will provide a major portion of the required corrective actions in line with the supervisory responsibilities delegated to them. In this connection attention is directed to the stress which this office has been placing on the need for more effective supervision of plant and supply matters by division engineers. Other areas where special attention should prove helpful include utilization surveys for both equipment and personnel, establishment and policing of cost controls, and the established fields of emphasis for management improvement.

It is desired that division engineers inform me not later than January 15, 1956:

(a) Of actions to correct specific deficiencies reported by the GAO audits which apply to your division.

(b) Of preventive actions to meet the objectives outlined herein.

The development and preparation of reports on audit findings is an integral part of the comprehensive audit work. This phase consists of the processes of developing, summarizing, and transmitting the findings, conclusions, recommendations, and other results of audit or review work to the officials or organizations entitled to such information or able to initiate or take any remedial action required. Audit reports are not considered as an end in themselves but as a medium by which information is transmitted or recommendations are made for improvement or corrective action. As such, they provide a basis for action or decisions by others.

Use of GAO audits by committees of the Congress

In addition to the beneficial results reported by agencies of the Government, as above indicated, the value of the General Accounting Office reports is reflected in their use by the Congress and its committees. The hearings of the Appropriations Committees contain many references to the findings contained in the audit reports. Legislative committees have utilized the information and recommendations contained in the reports in considering new and amendatory legislation governing the operations and programs of departments and agencies. Specific examples of such actions follow. Additional instances of committee actions based on these reports are included in the analyses of agency audits.

The Senate Committee on Appropriations in its report on the 1954 appropriation for the National Advisory Committee for Aeronautics (S. Rept. 237, 83d Cong.), requested the General Accounting Office to make a study of wind tunnels operated by the Government. The committee held a hearing on the report in considering the First Independent Offices Appropriations Act, 1954, at which representatives of the General Accounting Office, the National Advisory Committee for Aeronautics, the military departments, and other interested agencies testified.

The Appropriations Committees have used General Accounting Office audit and survey reports extensively in reviewing the proposed budgets of the Alaska Railroad and the Panama Canal Company. The following comment relating to General Accounting Office recommendations in the Alaska Railroad report is contained in House Report No.1628, 82d Congress, on the Interior Department Appropriation bill for 1953:

> The committee is of the opinion that certain of the recommendations should be adopted immediately and others should receive active consideration with a view to advising the committee next year as to whether or not it would be practical to adopt them also.

With reference to the Panama Canal Company, the Appropriations Committee eliminated a requested appropriation for $3 million for housing proposed by the Company, and instructed the Board of Directors to give serious consideration to the recommendations in the General Accounting Office report (H. Rept. 1652, 82d Cong., on the Civil Functions, Department of the Army, Appropriation Bill for 1953.)

The Civil Functions Appropriation Act, 1954 (Public Law 153, 83d Cong.), reflected General Accounting Office views by providing that employees of the Panama Canal Company and the Canal Zone Government shall no longer be furnished free medical and hospital care.

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According to the appropriation estimates, additional hospital revenue will amount to $145,000 annually (H. Rept. 450, 83d Cong.).

The Civil Functions Appropriation Act, 1955 (Public Law 453, 83d Cong.), also implemented General Accounting Office recommendations made before the Appropriations Committees of the Congress and in audit reports for 1952 (H. Doc. 207, 83d Cong.) and 1953 (H. Doc. 473, 83d Cong.), by providing that no appropriation or fund available to the Department of Defense shall be used after September 1, 1954, for the maintenance and operation of hospitals in the Canal Zone. The General Accounting Office believes that this elimination of duplicate facilities should save a substantial part of the former operating costs of from $1,600,000 to $1,900,000 annually.

At the direction of the chairman of the Committee on Government Operations, during the 83d Congress, the staff prepared a 23-page analysis of the findings and recommendations contained in the audit reports on the Panama Canal Company and the Canal Zone Government. This staff study (Staff Memorandum No. 83–2–34), entitled "Major Deficiencies in the Organization and Operation of the Panama Canal Company and the Canal Zone Government, as Disclosed by Audit Reports of the Comptroller General of the United States," was submitted to members for their information on December 31, 1954. It contained an extensive analysis, review, and evaluation of the information contained in various audit reports of the Comptroller General, as well as other pertinent materials relative to the Panama Canal situation. Reported major deficiencies were carefully examined and special attention was given to the views of the Comptroller General concerning these deficiencies as well as to information submitted to the committee by officials of the Panama Canal Company and the Canal Zone Government in reply thereto. Since the submission of this study, steps have been taken to improve the organization and operations of these agencies as recommended by the General Accounting Office.

A report on the audit of the Office of the Treasurer of the United States, submitted to the Congress on June 8, 1953, contained several recommendations to simplify or otherwise improve the procedures followed by the Treasury Department for redeeming and destroying unfit currency. The suggestions were discussed during the hearings on the 1954 Treasury Department appropriations (p. 223, hearings on Treasury-Post Office Appropriations for 1954, House Committee on Appropriations, 83d Cong.), and Treasury officials testified the next year before that committee that the recommendations resulted in large savings in the transportation, verification, and destruction of redeemed currency.

The General Accounting Office report on its audit of the Southwestern Power Administration for the fiscal year 1953, transmitted to the Congress on January 13, 1954, pointed out that the revenues of the agency were insufficient to cover the cost of producing electric energy and to amortize the Government's investment in the power projects. The Administrator testified before the House Committee on Appropriations (p. 122, hearing of the Subcommittee on Interior of the House Committee on Appropriations, 83d Cong.) that his agency was making every effort to eliminate the deficit shown by the report.

Several bills have been introduced to discontinue or eliminate the Postal Savings System, in accord with a suggestion made in reports

of the General Accounting Office that the need for the System be reexamined by the Congress (H. Doc. No. 393, 82d Cong. and H. Doc No. 50, 84th Cong.). The reports also contained numerous suggestions for management and accounting improvements.

Hearings were held by the Senate Committee on Agriculture and Forestry following the submission to the Congress, on November 10, 1952, of a special audit report on the Bureau of Customs relating to the importation of wheat classified as unfit for human consumption. This report disclosed that unprecedentedly large quantities of wheat so classified had been imported from Canada, that large quantities had been processed into flour for human consumption, and that improper subsidy payments had been made by Commodity Credit Corporation when some of this wheat was exported under the International Wheat Agreement, resulting in unnecessary costs and loss of revenue to the Government. At the conclusion of the hearings the committee made several recommendations to the Bureau of Customs to prevent the recurrence of these abuses (S. Rept. No. 410, 83d Cong.). As of March 15, 1955, fines of $122,500 had been collected from offenders, and several indictments were still pending. Also, the Government had received refunds of about $460,000 and escrow deposits of $515,000 from exporters who had received subsidy payments on exportations of Canadian wheat.

During the hearings of the Senate Committee on Banking and Currency on the 1954 housing legislation, entitled "FHA Investigation," in which the committee gave special consideration to so-called windfall profits, representatives of the General Accounting Office testified on the findings and recommendations contained in its annual audit reports on the Federal Housing Administration.

A major finding in the audit report of the Puerto Rico Reconstruction Administration, submitted to the Congress on June 26, 1953, was that the agency was superfluous and that immediate steps should be taken to effect its termination. The Senate and House Committees on Interior and Insular Affairs recommended (S. Rept. No. 639 and H. Rept. No. 975, 83d Cong.), and the Congress, on August 15, 1953, enacted legislation (Public Law 276, 83d Cong.) directing the termination of the agency's activities, including the disposal of its assets, by February 15, 1955. Officials of the Department of the Interior estimated that this action would result in an overall saving to the Government of $7 million to $8 million after payment of all expenses of liquidation.

The Subcommittee on Public Works and Resources of the House Committee on Government Operations held hearings in March 1955 on the matters contained in the audits of the Alaska Road Commission for the fiscal years 1952 through 1954. The committee issued a report (H. Rept. No. 1472, 84th Cong.) containing conclusions on several important operations discussed in the report, including recommendations to standardize per diem allowances and rates of pay for engineering aids in Alaska.

Improvement of GAO accounting and auditing procedures

The committee concludes that the progress made in the auditing work of the General Accounting Office, as the agent of the Congress, since the enactment of the Accounting and Auditing Act of 1950, fully justifies the action of the committee in recommending that legislation.

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This committee has, however, continued to maintain an active interest in improving the accounting and auditing procedures of the General Accounting Office, and particularly in exercising its responsibility and authority to provide the General Accounting Office and the executive departments and agencies with legislative authority as it becomes necessary to revise and improve these functions.

As illustrations of these legislative actions, during the first session of the 84th Congress the committee considered recommendations of the Department of Defense and the General Accounting Office for legislation designed to provide a uniform procedure for the relief of disbursing officers from accountability for physical losses and erroneous disbursements where due care had been shown to have been exercised. Legislation was drafted by the committee staff in cooperation with representatives of the Departments of Defense and the Treasury, the Bureau of the Budget, and the General Accounting Office, to provide a means for relieving these officers in all agencies of the Government, and for adjusting the financial accounts of the Government where necessary, in a manner similar to authority provided for the relief of certifying officers by the act of December 29, 1941 (55 Stat. 875). The committee action culminated in the enactment of Public Laws 334 and 365, completing a system for the relief of all accountable officers of the Government. The acts vest in the Comptroller General the authority to relieve such officers where the payment was not the result of bad faith or lack of due care on the part of the officer, thus providing a means for the relief of these officers in proper cases without requiring special acts of Congress. The legislation will eliminate to a great extent legislation which has been reported from committees of the Congress in the past for relief of accountable officers, since this function can now be performed by the Comptroller General of the United States, who as the agent of the Congress, can insure full protection of the interests of the Government.

The committee also has under consideration legislation designed to further simplify and improve the procedures for the payment of claims against the Government where the appropriations therefor have lapsed. In the first session of the 84th Congress a bill (S. 2678) designed to accomplish this purpose was filed in the Senate and referred to this committee. The staff of the committee has been in consultation with representatives of the Bureau of the Budget, Department of the Treasury, and the General Accounting Office in perfecting the proposed legislation by drafting of a more comprehensive bill for consideration by the committee.

Under existing legislation, claims which would be proper for payment if the appropriations therefor had not lapsed are referred to the General Accounting Office for consideration and payment from the "Payment of certified claims" account to which balances of lapsed appropriations are transferred. This requires maintenance in the General Accounting Office of detailed ledger accounts for the lapsed appropriations and the substantial utilization of the services of trained claims adjudicators and supporting personnel in processing such payments. In addition, the payments are recorded as expenditures of the Department of the Treasury rather than as expenditures of the agencies benefiting therefrom.

In a recent communication addressed to the chairman, the Comptroller General stated that the problems to which the proposed legisla-

tion is directed have been of considerable concern to the General Accounting Office for some time and that he appreciated the opportunity to suggest remedial legislation. The Comptroller General further stated that:

> Improvements in agency accounting * * * have substantially eliminated the need for advance approval by the General Accounting Office of many types of payments, and, as a result of decentralization of agency accounting, centralized payment procedures, such as those contemplated by the [present] Certified Claims Act, have become cumbersome and unnecessary. Having regard to these circumstances, and since experience has conclusively established that obligations liquidated from the "Payment of certified claims" account largely represent routine transactions, it is our opinion that such transactions can be handled under regular disbursement and postaudit procedures with substantial decreases in cost and with no sacrifice of appropriate safeguards.

The Comptroller General also stated that members of the Hoover Commission Task Force on Budget and Accounting had approached the General Accounting Office on the advisability of revising the certified-claims procedures to permit the agencies to pay their own outstanding obligations. Recommendations Nos. 17 and 18 of the Hoover Commission's June 1955 report to the Congress on budget and accounting deal with these matters. The Commission's conclusions and recommendations are in line with the objectives of the proposed legislation.

The Comptroller General's communication also pointed out that:

> * * * It has been our experience that agencies rarely, if ever, initiate action to close out no-year appropriations with the result that such accounts, often with trifling balances, remain open on the Government's books long after the projects for which they were provided have been completed. Under section 3691, Revised Statutes, as amended (31 U. S. C. 715), which the draft proposes to repeal, the Secretary of the Treasury has the authority to include balances in such accounts on surplus warrants without agency approval, but the archaic requirements of such section of the Revised Statutes for certifications by this Office that the balances are not needed for the payment of obligations and the settlement of accounts have acted as deterrents to the effective implementation of the provision.

Section 6 of the proposed bill will permit the orderly accomplishment of the purposes contemplated by the outmoded and ineffectual section 3691.

Internal auditing by the executive agencies of the Government

The Commission on Organization of the Executive Branch of the Government, in commenting on internal audits, in its report on budget and accounting, submitted to the Congress on June 20, 1955, stated that—

> It is only recently that attention has been given to the necessity for internal auditing within the departments and agencies of the Federal Government. Such auditing is required for the purpose of ascertaining the extent of compliance with the financial policies and procedures set by management. It does not take the place of the external auditing by the Comptroller General. Effective internal auditing should, however, facilitate his work. Internal auditing has been inaugurated in many agencies. However, only rarely has really effective and useful internal auditing been achieved.

The Commission recommended (Recommendation No. 25, p. 60):

> That the Bureau of the Budget and the General Accounting Office be requested to make an intensive study to determine the adequacy of internal auditing in Government agencies and what steps should be taken to improve it.

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As set forth in the accompanying analyses of General Accounting Office audit reports, there is need for further improvement in internal auditing performed by the administrative agencies. The Congress recognized the value of internal auditing by providing in the Accounting and Auditing Act of 1950 that the head of each executive agency shall establish a system of internal auditing designed to aid in effective control over funds, property, and other assets, and directed the Comptroller General to give due regard to the effectiveness of such systems in determining the auditing procedures which he is to follow. The committee urges the heads of agencies, their budget officers, and the appropriate committees of the Congress to take appropriate action to overcome the obstacles that hinder the development of internal auditing in the Federal Government.

Fees for Government services

In sections of this report which follow, such as in the analyses of the audits of the Department of the Interior and the National Advisory Committee for Aeronautics, the General Accounting Office reports that recommendations were made for the elimination of certain practices relating to the issuance of Government publications free of charge, and the failure of agencies to assess appropriate fees or charges for services rendered to special interests. The GAO reported that, in most instances, action had been taken to adjust the fees or charges commensurate with the service rendered to special beneficiaries of such services.

This committee submitted a report to the Senate on "Fees for Government Services" (S. Rept. No. 1467, 84th Cong.) [1] on February 1, 1956, covering the various aspects of this problem, including a review of legislative and agency actions taken to conform to recommendations made by the committee in 1950 (S. Rept. 2120, 81st Cong.).

Analyses of Audit Reports

The following analyses of the various audits submitted to the Congress by the General Accounting Office set forth the type and extent of audits performed; the effectiveness of internal audit and control and related administrative practices of the respective agencies; brief summaries of recommendations made to the agencies and to the Congress for improvement of internal or general audit procedures, and for the correction of operating deficiencies reported as not conforming to the intent of the legislative authority under which designated functions are performed. The analyses also include actions already taken, either by the agency or component involved or by the Congress, the status of pending actions to conform to specific recommendations, with agency comments relative to certain aspects of the reports.

EXECUTIVE OFFICE OF THE PRESIDENT

The Executive Office of the President includes the following:

The President's Office
The White House Office
Executive Mansion and Grounds
Bureau of the Budget
Council of Economic Advisers
National Security Council
Office of Defense Mobilization

[1] For sale by the Superintendent of Documents, U. S. Government Printing Office, Washington 25, D. C. Price 60 cents.

The General Accounting Office audits the accounts of the National Security Council at the site, and, in harmony with the theory of independent review and certification, the compensation of the President is the subject of direct settlement by the General Accounting Office.

Except for payments for personal services, the expenditures of all other units of the Executive Office of the President are audited centrally in the General Accounting Office by examination of documents submitted to it in support of payments for expenses of travel, purchases, rents, utilities, and other items. Payrolls are audited at the site.

The appropriations designated as "Funds Appropriated to the President" are usually advanced or transferred to other agencies for expenditure. The nature of the audit of these expenditures will depend on the type of audit applied to the expenditures of the agencies to which the funds are transferred.

DEPARTMENT OF AGRICULTURE

The Department of Agriculture was created by act of Congress approved May 15, 1862 (12 Stat. 387; 5 U. S. C. 511, 514, 516), and until 1889 was administered by a Commissioner of Agriculture. By act of February 9, 1889 (25 Stat. 659; 5 U. S. C. 512), the powers and duties of the Department were enlarged, and the Commissioner became the Secretary of Agriculture.

The act of February 28, 1944 (58 Stat. 105), authorized a commercial-type audit of the Commodity Credit Corporation beginning with fiscal year 1945. The act of February 24, 1945 (59 Stat. 5), extended the commercial-type audit to all Government corporations, and following its enactment the corporations and banks supervised by the Farm Credit Administration, then in the Department of Agriculture, and the Federal Crop Insurance Corporation were placed under that type of audit.

Beginning with fiscal year 1947, these corporations and banks have been audited under the Government Corporation Control Act, approved December 6, 1945 (31 U. S. C. 841). Audits under this act are considered to be comprehensive audits. The comprehensive type audit was extended to other agencies in the Department when the availability of personnel permitted.

The following summary shows the nature of the General Accounting Office audit now being made in the principal organizational components of the Department of Agriculture.

Audited on a comprehensive basis

Soil Conservation Service
Agricultural Conservation Program Service
Farmer Cooperative Service
Agricultural Marketing Service
Commodity Stabilization Service
Commodity Credit Corporation
Agricultural Stabilization and Conservation Committees
Federal Crop Insurance Corporation

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Farmers' Home Administration
Rural Electrification Administration
Forest Service (effective July 1, 1955).
Foreign Agricultural Service (effective July 1, 1955)

Audited on a centralized basis

Office of the Secretary
Departmental administration
Office of the General Counsel
Agricultural Research Service
Federal Extension Service
Commodity Exchange Authority

The Department of Agriculture encourages its organizational components to meet their responsibilities under the Accounting and Auditing Act of 1950 by furnishing them budgetary, accounting, auditing, and systems survey assistance through its Office of Budget and Finance. The Department's statement on internal-audit policy, dated April 26, 1954, stresses the desirability of having internal audit staffs report to the top administrative level to facilitate independence and assure adequate consideration and action on audit findings and recommendations. Internal audit staffs have been established for all agencies of the Department except the staff offices and three of the smaller agencies.

SOIL CONSERVATION SERVICE

The Soil Conservation Service (SCS) was established by the Secretary of Agriculture in 1935, under authority of the act approved April 27, 1935 (49 Stat. 163; 16 U. S. C. 590a–f), for the basic purpose of developing and carrying out a permanent program for the control and prevention of soil erosion.

The establishment of SCS brought together within one agency the limited soil-erosion investigations that had been made by the Department of Agriculture and the activities of the Soil Erosion Service created in 1933 in the Department of the Interior pursuant to section 202 (b) of the National Industrial Recovery Act, approved June 16, 1933 (48 Stat. 201).

Under authority of the Flood Control Act of 1944 (33 U. S. C. 701a–1), SCS plans and applies flood-damage prevention measures and practices in 11 major watersheds comprising about 30 million acres. In addition, 60 smaller watersheds are being developed under authority contained in the Department of Agriculture Appropriation Act, 1954 (67 Stat. 214), and work on a number of other watersheds is being planned under the authority contained in the act of August 4, 1954 (16 U. S. C. 1001).

The SCS is responsible for assisting in the National, State, and county agricultural conservation program of the Department of Agriculture, mainly by providing needed technical assistance to farmers and ranchers in applying conservation practices approved for cost sharing.

Overall management of SCS is provided by a small staff in Washington under the direction of an Administrator. State and Territorial conservationists, assisted by technical and administrative staffs,

are responsible for the planning and execution of all conservation work in their respective States. Work unit offices, under the direct supervision of area offices, supply technical advice and assistance to farmers and ranchers. Individuals and technical units directed and supervised by the Washington office are maintained at various locations to provide State offices with technical information and services.

General Accounting Office audits

The General Accounting Office has made comprehensive audits of SCS for the fiscal years 1951 through 1954 and two reports have been submitted to the Congress. Prior to fiscal year 1951 the General Accounting Office made a centralized audit of vouchers and site audits of payrolls.

The General Accounting Office made recommendations to the agency in the report for the fiscal years 1951 and 1952, pertaining to (1) review of amounts distributed to State rural rehabilitation corporations in liquidating joint investments in water conservation and utilization projects; (2) establishment of an internal audit organization; (3) accounting controls over property and equipment; and (4) need for maintaining duplicate personnel files for field employees. SCS has taken appropriate action on these recommendations.

In the audit report for the fiscal years 1953 and 1954, it was recommended that the authorization in the Department of Agriculture annual appropriation acts to reimburse SCS for the cost of rendering technical assistance to farmers under the agricultural conservation program be revised to provide for the transfer of funds to SCS on a State basis rather than on an individual county basis. The General Accounting Office believes that this would aid materially in program planning, increase the efficiency of fund utilization, and reduce the administrative cost of the program. The Department of Agriculture gave effect to this recommendation in its 1956 budget estimates. However, the Department of Agriculture and Farm Credit Administration Appropriation Act, 1956, did not include the language proposed in the budget.

Internal auditing

The internal audit function is carried out by a four-member program appraisal and internal audit staff, the chief of which reports directly to the SCS Administrator. The General Accounting Office believes that in view of the decentralization of accounting and management functions and the scope of SCS's operations, the number of employees on the internal audit staff should be increased.

AGRICULTURAL CONSERVATION PROGRAM SERVICE

The Agricultural Conservation Program Service (ACPS) administers the program to encourage soil building and soil and water conservation by offering to share the cost of certain conservation practices with the farmer or rancher. The program is authorized by sections 7 through 17 of the Soil Conservation and Domestic Allotment Act (16 U. S. C. 590g through 590q), enacted February 29, 1936. ACPS was established as a separate agency on January 21, 1953, to assume the functions of a branch of the Production and Marketing Administration. The agency has about 50 employees, all located in Washing-

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ton. Operations are carried out at the State and county level through the facilities of the Agricultural Stabilization and Conservation State and county committees, whose activities are supervised by the Commodity Stabilization Service.

General Accounting Office audits

Vouchers were preaudited under General Accounting Office supervision in the State offices from inception of the program until 1951. Post audit of vouchers at the site was inaugurated during fiscal year 1952 in certain areas. On July 1, 1952, the agricultural conservation program was placed under comprehensive audit.

An audit report issued to the Congress on June 22, 1955, contained the following matters of significance:

General Accounting Office recommendations to the Congress

Simplification of financing methods.—The agricultural conservation program is financed in part by borrowing from Commodity Credit Corporation pursuant to section 391 (c) of the Agricultural Adjustment Act of 1938 (7 U. S. C. 1391 (c)). The funds borrowed are transferred to the current appropriation account in order to finance the advance purchase of conservation materials and services. The borrowing arrangement, in effect, permits the shifting of funds from one year to the next. The General Accounting Office has recommended that the Congress provide all funds required to finance the agricultural conservation program directly through normal appropriation procedures. According to the Department of Agriculture, such a change would require appropriations to be made a year earlier than at present.

Elimination of small payment increases.—Small payment increases up to $14 are made to farmers whose conservation practice payments with respect to any farm are less than $200. The aggregate estimated small payment increases under the 1952 and 1953 program authorizations were $25,835,000 and $26 million, respectively. The General Accounting Office has recommended that section 8 (e) of the Soil Conservation and Domestic Allotment Act (16 U. S. C. 590h (e)) be amended to permit the direct application of all available funds to conservation practices.

General Accounting Office recommendations to the agency

Allocation of funds on the basis of conservation needs.—The General Accounting Office recommended that the land survey data, used as a basis for need determinations and the allocation of funds to the States, be revised periodically to reflect more accurately the current need for the types of assistance offered under the program. Agency officials agree that conservation needs data should be revised periodically, and are currently studying the problem.

Audits of State and county offices

The audit disclosed a number of deficiencies in State and county office operations. The deficiencies generally consisted of failure to comply with existing instructions, or indicated carelessness in preparation of documents. Some indicated a need for additional instructions. The ACPS has acknowledged these deficiencies, taken prompt action to issue the necessary instructions, and the management is continuously planning and taking corrective action to improve performance in the field offices.

In a memorandum to the General Accounting Office, on March 25, 1955, the Department, while stating that the proposed General Accounting Office audit report on ACPS was, in general, well prepared, there were certain aspects which required further clarification. These dealt primarily with the allocation of funds to States on the basis of conservation needs for permanent-type conservation work, county allocations, and simplification of financing methods. The Department concluded that the audit had been most helpful, although exception was taken to General Accounting Office comments on the manner in which the Department had handled the problem relating to ACPS control of State committees.

FARMER COOPERATIVE SERVICE

The Farmer Cooperative Service was established to continue the work authorized by the Cooperative Marketing Act of July 2, 1926 (44 Stat. 802; 7 U. S. C. 451–457), formerly conducted by the Cooperative Research and Service Division of the Farm Credit Administration. The functions of the Division were transferred to the jurisdiction and control of the Secretary of Agriculture by the Farm Credit Act of 1953 (67 Stat. 390; 12 U. S. C. 636a note), effective December 4, 1953.

The FCS performs research and educational and service work of assistance to farmer cooperatives and their members on problems of management, financing, organization policies, merchandising, quality, costs, efficiency, and membership. It publishes the results of such studies, confers and advises with officials of farmer cooperatives, and works with educational agencies, cooperatives, and others to disseminate information on cooperative principles and practices. The Service also conducts certain marketing research studies having industry-wide application, authorized under the Agricultural Marketing Act (RMA, title II), with funds advanced by the Agricultural Marketing Service. As of June 30, 1955, FCS had 101 full time employees, all located in Washington, many of whom were transferred from the Farm Credit Administration.

General Accounting Office audits

FCS's activities were audited by the General Accounting Office as part of its audit of the Farm Credit Administration for fiscal years 1952, 1953, and 1954. Audit findings since the transfer of functions to the Secretary of Agriculture, as of December 4, 1953, have not warranted the submission of separate reports to the Congress.

Internal auditing

Administrative audit in the nature of internal auditing is performed in the budget and fiscal section but because the volume of transactions is not large no internal audit section as such has been deemed necessary. The General Accounting Office recognizes these circumstances in determining the scope of its comprehensive audits of the Service.

AGRICULTURAL MARKETING SERVICE

The Agricultural Marketing Service (AMS) was organized November 2, 1953, pursuant to Reorganization Plan No. 2 of 1953. Its purpose is to aid in advancing the orderly and efficient marketing and effective distribution of products from the Nation's farms. The func-

tions of AMS include research and development relating to marketing and distribution; preparation of and publishing agricultural economic analyses, statistics, and estimates; and marketing services. The activities and functions known as "marketing services" include (1) collecting and disseminating marketing news; (2) inspection, grading and classing, and standardization of agricultural commodities; (3) administering marketing agreements and orders and certain regulatory acts such as the Packers and Stockyards Act, 1921 (7 U. S. C. 181) and the United States Warehouse Act (7 U. S. C. 241); and (4) administering the National School Lunch Act (42 U. S. C. 1751), school milk, surplus removal, and related programs.

The AMS administers its research, statistical, and marketing services functions of the Department from Washington through field offices applicable to each function. As of January 1, 1956, there were 8,305 employees, 2,042 of whom were attached to the administrative staff stationed in Washington and 6,263 were assigned to 466 field offices.

General Accounting Office audits

One of the activities assigned to AMS upon its creation, administration of the National School Lunch Act, has been under comprehensive audit since July 1, 1952. The other activities of AMS were assigned for comprehensive audit when it was organized on November 2, 1953.

An audit report on the national school lunch program, submitted to the Congress on March 4, 1955, contained the following significant comments:

1. Most States use the same reimbursement rates for all schools without regard to the varying needs of the schools.
2. Matching requirements do not operate to encourage financial participation and control by the States.
3. Distribution costs under distribution programs operated under contract by private companies were excessive.
4. Enforcement of Federal-State agreements should be characterized by a firmer attitude on the part of AMS.

Agricultural Marketing Service officials have advised the General Accounting Office that (1) a program of education and assistance to States rather than changes in legislation appears to be the most effective method for obtaining adjustment of reimbursement rates in relation to the varying needs of the schools; (2) the pattern of within-State program financing is reported to the Congress each year; (3) continuing attention will be given to the reasonableness of distribution costs under programs operated under contract by private companies; and (4) AMS has followed the basic policy of education, persuasion, assistance, and cooperation to encourage States to comply with Federal-State agreements, and where this approach consistently fails to bring about program improvements, AMS will use more drastic measures, such as withholding funds, until satisfactory assurances have been received that improvements will be instituted.

A substantial variation between the cost of distribution charged to recipients of donated commodities by (*a*) State agencies and (*b*) private companies was noted. This was particularly true in the State of Illinois where the State had entered into an agreement with a private contractor, Dunbar & Co., for a statewide distribution service. This contract came under investigation by the Intergovernmental Re-

lations Subcommittee of the House Committee on Government Operations in February 1955. At the request of the chairman of the subcommittee, the General Accounting Office performed a survey of the operations of Dunbar & Co., in Springfield, Ill., and issued a report on its findings to the subcommittee on April 18, 1955 (B–114866). Dunbar & Co. canceled the contract effective March 31, 1955.

Internal auditing

As of June 30, 1955, the program appraisal and audit division staff, whose director reports directly to the Administrator, had 103 members; 27 located in Washington and 76 at 6 field locations. A manual of audit procedures covering each activity of the agency is being prepared by the division for the use of its staff. The General Accounting Office believes that the audit objectives and the scope of the internal audits are generally sound. It makes maximum use of the internal audit reports in planning and conducting its own work.

COMMODITY STABILIZATION SERVICE AND AGRICULTURAL STABILIZATION AND CONSERVATION COMMITTEES

The Commodity Stabilization Service (CSS) was created on November 2, 1953, pursuant to Reorganization Plan No. 2 of 1953. Its principal activities are price support, storage, and transportation of commodities, sales and other dispositions of price-support commodities, supply and foreign purchase programs, and the International Wheat Agreement, all of which are administered by CSS on behalf of the Commodity Credit Corporation. The General Accounting Office audits and submits reports on CCC activities under the Government Corporation Control Act.

The CSS also administers the Sugar Act of 1948, as amended (7 U. S. C. 1100), and the acreage allotment and marketing quota programs pursuant to provisions of title III of the Agricultural Adjustment Act of 1938, as amended (7 U. S. C. 1301–1393). CSS administers the agricultural conservation program on behalf of the Agricultural Conservation Program Service.

On January 1, 1955, CSS had 4,628 employees; 1,011 were located in Washington and 3,617 were located in CSS commodity offices and field offices of certain Washington divisions and offices. Operations are conducted through the 8 CSS commodity field offices, 13 CSS division field offices, and through the 51 State and area ASC offices and approximately 3,000 county offices. The State and area offices had 1,707 full-time and 285 part-time employees. The county offices are staffed with non-Federal employees.

Sugar Act program

The following recommendations were contained in a General Accounting Office report on the Sugar Act program, submitted to the Congress on December 10, 1954.

1. The CSS Audit Division should broaden its scope of audit so as to include periodic reviews of operations of the Sugar Division office in Washington. The General Accounting Office believes this would serve to increase the benefits presently derived by management from the internal audit function.

2. Steps should be taken to impress field offices with the need for a more aggressive enforcement policy with respect to child

labor. The General Accounting Office audit indicated that existing procedures had not been sufficiently effective in the beet area for enforcing the child labor provisions of the Sugar Act.

3. The General Accounting Office recommended that the CSS Sugar Division take action to strengthen and formalize certain control procedures followed by the Washington and field offices. These procedures related to the verification of processors' marketing reports on which Sugar Act payments are based, and checking of processor-producer compliance with fair price determinations issued by the Secretary of Agriculture pursuant to section 301 (c) (a) of the Sugar Act. The Sugar Division has taken a number of steps to carry out this and the preceding recommendation.

As a result of a specific situation found to exist in a county office, the General Accounting Office raised the question of whether membership in sugar-processing cooperatives by county committeemen constituted an act prohibited by section 407 of the Sugar Act of 1948, as amended (7 U. S. C. 1157). This section prohibits persons from investing in the stock or membership interests of any association or corporation engaged in the production or manufacturing of sugar or liquid sugar while acting in any official capacity in the administration of the act. The General Counsel, Department of Agriculture, was of the opinion that the prohibition in section 407 applied to all persons, including county committeemen. As a result, departmental regulations were revised to assure future compliance with the law at all levels of administration.

The audit disclosed a number of relatively minor operational deficiencies in the field offices. These consisted generally of failure to follow instructions, failure to perform required farm checks, duplications of effort, and discrepancies in certain program records. The deficiencies were brought to the attention of the Sugar Division, and replies indicated that corrective action would be taken.

The counsel for the House Committee on Agriculture advised the Comptroller General that the audit report on the Sugar Act program of the Department of Agriculture for the fiscal year ending June 30, 1953, was one of the clearest and most understandable statements of the operations of the Sugar Act that he had seen. He also stated that it would be very helpful to the committee in considering legislation relating to the Sugar Act.

Agricultural Stabilization and Conservation Committees

Deficiencies noted in the General Accounting Office audits of the State and county offices of the Agricultural Stabilization and Conservation Committees are reported to the Administrator of Commodity Stabilization Service for appropriate action. Audit findings for the fiscal year 1953, consisting of a consolidation of correspondence on various matters, were summarized at the request of the Department in a report issued to the Under Secretary on September 10, 1954. The General Accounting Office audit report on the Commodity Credit Corporation for the fiscal year ended June 30, 1953, part II (H. Doc. 129, 84th Cong.), also contains comments on the audits of the State and county offices. Twenty audit reports were issued to the Administrator on the audits of 22 States for the fiscal year 1954.

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CSS commodity offices

The General Accounting Office submitted six audit reports to the Administrator on its audits of the CSS commodity offices for the fiscal year 1954. Deficiencies noted in the audit of the other two commodity offices were not significant enough to warrant the submission of separate reports.

Internal auditing

On June 30, 1955, the Audit Division, CSS, had a staff of 99 auditors stationed at 12 locations and in Washington. The Division makes continuous selective audits of activities in the central office, CSS field offices, and in the offices of commercial agents under contract to CSS. The Division is also responsible for rendering technical assistance to auditors employed by the ASC State offices to audit the ASC county offices. Audit reports on various phases are submitted promptly to appropriate management levels and the Administrator is furnished with a monthly summary of audit findings. Recommendations are followed up to determine whether appropriate action has been taken.

The General Accounting Office considers the scope and quality of internal audits adequate to disclose deficiencies of significance or of substantial duration and believes the Division is of considerable aid to the management. The General Accounting Office has placed considerable reliance on its work and has substantially reduced the amount of work it would otherwise have performed.

FARMERS HOME ADMINISTRATION

The Farmers Home Administration (FHA) was established as of November 1, 1946, by the Secretary of Agriculture pursuant to the Farmers' Home Administration Act of 1946 (7 U. S. C. 1001 note). The principal function of FHA is to make or insure and to service loans to eligible farmers and stockmen who cannot get credit elsewhere at reasonable rates and terms.

FHA had active loan programs with outstanding balances of $783 million at June 30, 1954. In addition it was liquidating several inactive loan programs or programs taken over from predecessor agencies having outstanding loan balances of $62 million. During fiscal year 1954 loans totaling $292 million to approximately 131,000 farm families were made or insured.

FHA conducts its activities through a national office in Washington, D. C., a finance office in St. Louis, Mo., 41 State offices and approximately 1,500 county offices located in the continental United States and possessions. As of January 1, 1956, the FHA had 10,280 employees, of whom 201 are located in Washington, D. C.

General Accounting Office audits

The General Accounting Office audited vouchers centrally in Washington and audited payrolls at the site through December 31, 1948. It began to audit the vouchers at the area finance offices in 1949 and instituted comprehensive audits in fiscal year 1951. Audit reports have been submitted to the Congress for the fiscal year 1951, fiscal years 1952–53, and fiscal year 1954.

The General Accounting Office included recommendations on the following matters in the report for fiscal years 1952–53:

1. Loan collection policies did not provide for collecting interest to the date payment was received when payments were not made as scheduled.

2. FHA performed without charge numerous services generally performed by insurance companies.

3. The internal audits of the State offices and of the Washington, D. C., offices were of limited scope.

4. Deficiencies existed in the operation of the fur loan program in the county office at Aurora, Colo.

After these matters were called to its attention, FHA changed its loan collection policy pertaining to real-estate type loans to calculate interest to the date payment is received, entered into a new insurance contract under which all services are performed by the insurance company; extended the scope of internal audit in the State offices; and made changes to correct deficiencies in the operation of the fur loan program in Aurora County, Colo.

In its report for fiscal year 1954, the General Accounting Office stated that FHA had entered into new trust agreements with 42 of the State rural rehabilitation corporations for the administration of all or part of the corporations' assets pursuant to the Rural Rehabilitation Corporation Trust Liquidation Act of May 3, 1950 (40 U. S. C. 440), under which FHA's functions and responsibilities remain substantially the same as those existing under the agreements in effect prior to the enactment of this act. Existing legislation makes no provision for terminating the Government's interest in the corporations' assets, which amounted to about $35 million at June 30, 1954. The General Accounting Office was of the opinion that consideration should be given to terminating the trust agreements because of the cost of administration and because the Congress does not exercise control over FHA's use of the corporations' funds which is permitted for authorized purposes under the agreements.

Internal auditing

The FHA internal audit group, established in 1946, carries out a continuous program of audit of the accounts, records, and transactions of the agency at the finance office in St. Louis, Mo., and reviews the operations of the county offices once every 2 to 3 years.

RURAL ELECTRIFICATION ADMINISTRATION

The Rural Electrification Administration (REA) was created as a temporary agency in May 1935 under authority of the Emergency Relief Appropriation Act of 1935 (49 Stat. 115). The present agency was created as an independent agency of the Government under the Rural Electrification Act of 1936 (7 U. S. C. 901) and was transferred to the Department of Agriculture on July 1, 1939. The Administration provides long-term credit, principally to cooperative associations, for construction of electric generating, transmission, and distribution facilities and for furnishing and improving telephone service in rural areas. It also makes short-term loans to borrowing organizations to finance acquisition of consumer appliances and facilities by the users of rural electric service. All loans bear a low rate of interest which, since September 21, 1944, has been established by law at 2 percent a year.

The REA conducts its activities through an organization centralized in Washington, D. C. At June 30, 1956, the Administration had 1,010 employees. Loans outstanding to borrowers amounted to $2,285,626,403 at June 30, 1955.

General Accounting Office audits

The General Accounting Office has made comprehensive audits of REA for the fiscal years 1951 through 1954 and two reports have been submitted to the Congress. Prior to fiscal year 1951 the General Accounting Office made a centralized audit of vouchers, site audits of payrolls, and to a limited extent a site audit of loan program transactions. Comments on findings and recommendations included in the General Accounting Office reports and subsequent action thereon follow.

Interest collection policy

Principal and interest installments on electric and telephone facility loans are scheduled by REA for payment generally over the maximum statutory loan period of 35 years. On most of these long-term loans REA does not require borrowers to make payment of interest or principal until the sixth year of the loan period on electric loans and the fourth year on telephone loans. When payments are begun, each quarterly installment during the remaining years includes an amount for current interest and principal and an additional amount to pay off a portion of the interest accrued during the period when no payments were required on the loans. The audit reports point out that this procedure permits the application of loan collections to principal indebtedness before all accrued interest has been paid.

In contrast, the established method for applying collections on indebtedness to the United States is to apply payments first to the liquidation of accrued interest and the remainder to principal. This method, known as the United States rule, was followed by REA until September 21, 1944, when the existing method was adopted.

The General Accounting Office estimated that REA's present interest collection policy, applied at the current interest rate of 2 percent a year to approximately $2.5 billion of loans approved between September 21, 1944, and June 30, 1954, will result in the collection of about $70 million less interest during the loan periods than would be collected if the United States rule were followed.

The Administration has recently completed a study of its interest collection policy and it plans to revise its method of applying payments made by borrowers. Under the proposed procedure, which will apply to new loans only, payments made by borrowers will be applied to the liquidation of all interest due before any part of the payment is applied to principal.

Revision of State allotment formula

Subsections (c), (d), and (e) of section 3 of the Rural Electrification Act of 1936 (49 Stat. 1364; 7 U. S. C. 903) originally required the allotment of 50 percent of the annual electrification loan funds on the basis of a formula geared to the number of unelectrified farms in each State, and limited loans from the remaining 50 percent and from any unused funds carried over from preceding years to not more than 10 percent in any one State or all the Territories.

When the original legislation was enacted about 90 percent of the Nation's farms were unelectrified. As of June 30, 1954, less than 8 percent of the Nation's farms were without central station electric service. The formula originally prescribed by law, therefore, no longer served the purpose for which it was intended, and it frequently resulted in allocation of more funds than required to some States with consequent shortages in others. In order to meet these shortages, REA was required to request loan funds in excess of actual needs. The General Accounting Office recommended that the Congress enact legislation to revise the electrification loan fund allotment formula to provide loan funds to borrowers by States on the basis of estimated needs.

Subsequently, section 3 of the act was amended by Public Law 70, 84th Congress, approved June 15, 1955. The amendment retains the State allotment formula but modifies it by making 25 percent, instead of 50 percent, of the annual loan fund appropriations subject to State allotment on the basis of unelectrified farms during the first 6 months of the fiscal year. Thereafter the unobligated loan funds are made available without allotment, subject to a 25 percent limitation in any one State.

Control over payment of patronage dividends

Based on a study of the legal and administrative controls exercised by the Administration over the payment of patronage dividends by REA cooperative borrowers, the General Accounting Office concluded that (1) the restrictions contained in the standard mortgage indenture executed by electric and telephone cooperative borrowers do not assure adequate control over the payment of patronage dividends and (2) neither does the administrative supervision exercised by REA assure adequate control. The Administration has recently developed plans to strengthen its control over the payment of patronage dividends but they have not been put into effect. These plans comprise the basic procedures recommended by the General Accounting Office.

Improvements in accounting procedures

For a number of years, the REA's accounting procedures were directed principally toward maintaining records of cash receipts and disbursements. In 1950 the Administration began a study of its accounting methods and requirements with the assistance of representatives of the Office of Budget and Finance, Department of Agriculture, and the Accounting Systems Division, General Accounting Office. The study was designed to develop means of simplifying existing methods and improving internal accounting and financial reporting, in keeping with the policy expressed in the joint program for improving accounting in the Federal Government, established in the preceding year.

In a letter submitted to the Administrator on January 15, 1951, the General Accounting Office recommended that REA provide a system of internal control to include (1) proper segregation of duties and responsibilities; (2) employment of capable accounting personnel; (3) development of an accounting system providing effective control over assets, liabilities, income, and expenses; and (4) observance of sound practices in operations in lieu of existing procedures.

With further advice and assistance from the Department's Office of Budget and Finance and the Accounting Systems Division, General

Accounting Office, the Administration reorganized its accounting activities, conforming essentially with the recommendations, and established a general program for improvements in accounting and related functions.

Audits of borrowers' records

All REA audits of borrowers' records were originally performed at Government expense and without cost to the borrowers, although REA loan instructions provide the Administration with the right to require that borrowers obtain audit services at their own expense. By 1952, when there were 1,016 active electric borrowers, REA had requested 261, or about 25 percent, to assume the responsibility and cost of procuring audit services. In a letter submitted to the Administrator on May 2, 1952, the General Accounting Office recommended (1) that the Administration revise its standards for selecting borrowers required to pay their own audit costs; (2) that REA personnel discontinue making construction audits when independent accountants were employed; (3) that REA make certain organization and administrative changes to eliminate overlapping activities, improve internal controls, and increase effectiveness of its audit activities; and (4) that the Administration adopt further measures to assure that all electric and telephone borrowers would be required to assume the cost of audit services within a definite period of time.

Effective July 1, 1952, REA revised its organization and adopted most of the recommendations on auditing activities made by the General Accounting Office. The removal of 373 electric borrowers from the list of borrowers subject to audit by REA personnel has resulted in substantial and continued savings.

Internal auditing

The General Accounting Office audit report states that the work of REA's internal auditors has resulted in eliminating some deficiencies and in strengthening accounting controls, but that the activities of the internal auditors have been limited primarily to fiscal operations and have not included an appraisal of the Administration's overall organization policies, procedures, and performance. However it is understood that REA has now drafted an expanded audit program to cover these areas.

DEPARTMENT OF COMMERCE

The Department of Commerce was designated as such by the act of March 4, 1913 (37 Stat. 736; 5 U. S. C. 611), which reorganized the Department of Commerce and Labor, created by the act of February 14, 1903 (32 Stat. 826; 5 U. S. C. 591), by transferring out of the former department all labor activities.

The statutory functions of the Department are to foster, promote, and develop the foreign and domestic commerce, the mining, manufacturing, shipping, and fishing industries, and the transportation facilities of the United States.

The following bureaus and offices of the Department of Commerce are audited on a comprehensive basis:

Bureau of Public Roads
Federal Maritime Board and Maritime Administration
Inland Waterways Corporation
National Bureau of Standards

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Financial transactions of the Civil Aeronautics Administration are audited at the site, although not on a comprehensive basis. The vouchers of all other bureaus and offices in the Department are audited centrally in the General Accounting Office, but their payrolls are audited at the site.

BUREAU OF PUBLIC ROADS

The Bureau of Public Roads, Department of Commerce, is the principal roadbuilding agency of the Federal Government and administers large annual authorizations to aid the States in road construction. The Bureau cooperates with the Departments of Agriculture and Interior in the construction of roads in national forests, national parks, and other Federal areas. Its major activities include the Federal-aid highway, forest highway, inter-American highway, and access-roads programs.

The management of the Bureau is vested in a Commissioner who is appointed by the Secretary of Commerce under authority of reorganization plan No. 7 of 1949 (63 Stat. 1070). The Commissioner is responsible for the development and coordination of the Bureau's policies and administers its affairs under the general direction of the Secretary of Commerce. The Bureau's activities are carried out for the most part by a field organization comprised of 9 division offices and 52 district offices.

General Accounting Office audits

The General Accounting Office commenced a site audit of the Bureau of Public Roads with the fiscal year 1953 and is now engaged in the audit of transactions for fiscal year 1955.

Auditing of Federal aid to the States

Final reimbursement vouchers from the States for work performed under Federal-aid procedures are subject to an engineering and fiscal review by the Bureau prior to payment. The General Accounting Office review of this activity disclosed duplication of audits and reviews at various levels of the Bureau, and many deficiencies and a general lack of consistency in the audit procedures and techniques employed. The auditors recommended elimination of certain duplicate reviews and the preparation of an audit manual that would clearly define the responsibilities of the auditor, the objectives of the audit work, the scope of work to be performed, and establish standards for auditing and reporting. The Bureau has recently started the preparation of such an audit manual.

Bureau management

In its reports to the Commissioner, based upon reviews conducted at a number of field locations, the General Accounting Office commented on deficiencies and inconsistencies observed in organization, program and administrative activities, and procedural matters. Most of the comments were of Bureau-wide significance. The reports dealt with such matters as inconsistency of organization among field offices, inadequacy of review of States' procedures for competitive bidding, duplication of records and reports, excess office equipment, road-building equipment, and motor vehicles, improper administration and use of motor vehicles, excess office space, inadequate control of property, and inadequate control of travel by

Bureau employees. Specific recommendations were made to the Commissioner for correction of each of these deficiencies. The reports are presently being considered by the Commissioner.

Fiscal administration

In reports to the Commissioner on audits performed at various field offices of the Bureau, the General Accounting Office commented on a number of deficiencies and weaknesses in accounting procedures and internal control and made specific recommendations on each of the matters reported. Certain deficiencies in the Bureau's overall accounting system and its system for recording the results of operations at equipment depots were reported to the Commissioner and a recommendation was made that the Bureau review its accounting system in cooperation with the Department of Commerce and the General Accounting Office. Early in fiscal year 1956, this cooperative endeavor was started with a view toward eliminating the deficiencies noted.

Internal auditing

During fiscal year 1954, as a result of a recommendation by the General Accounting Office, the Bureau started a program of internal auditing, but progress is reported by GAO as being unsatisfactory. The General Accounting Office has continued to encourage the expansion of the internal-audit activity as an independent element of management control.

CIVIL AERONAUTICS ADMINISTRATION

The Civil Aeronautics Act of 1938 (49 U. S. C. 401) established the Civil Aeronautics Authority as an independent agency composed of a 5-member board, an administrator, and an Air Safety Board of 3 members.

By Reorganization Plans No. 3 and 4 of 1940, certain of the functions of the 5-member board, whose name was changed to the Civil Aeronautics Board, were transferred to the redesignated Administrator of Civil Aeronautics.

The Board and the Administrator were placed within the framework of the Department of Commerce, with the Administrator's functions placed under the direction and supervision of the Secretary of Commerce. The functions of the Administrator were transferred to the Secretary of Commerce by Reorganization Plan No. 5 of 1950, who delegated their performance to the Administrator.

The Administrator of Civil Aeronautics (the Civil Aeronautics Administration is the name administratively assigned to the Office of the Administrator) encourages and fosters the development of civil aeronautics and air commerce; encourages the establishment of civil airways, landing areas, and other air navigation aids and facilities; designates civil airways and acquires, establishes, operates, and maintains air navigation facilities along such civil airways and at landing areas; makes provision for the control and protection of air traffic moving in air commerce; undertakes or supervises technical development work in the field of aeronautics; plans for the development of aeronautical facilities; maintains and operates the Washington National Airport and 2 airports in Alaska, 1 at Anchorage and 1 at

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Fairbanks. The Administrator also enforces the civil air regulations prescribed by the Civil Aeronautics Board except the suspension and revocation of certificates after hearing.

The varied functions of the Civil Aeronautics Administration are carried out, for the most part, by a field organization comprised of 6 regional offices, 2 centers active in technical development and evaluation work, a medical research laboratory, and an airways facilities shop. Control over the field activities is maintained by the Washington, D. C., office through operating directives and review of field reports.

General Accounting Office audits

Beginning July 1, 1952, the Comptroller General authorized the Civil Aeronautics Administration to retain its vouchers and related documents for audit at the site. Since that time these documents have been audited at the Administration's Washington and regional offices.

Administrative management

During the audits and at the completion thereof, appropriate officials of the Administration were advised of matters requiring consideration at individual regional offices. Attention was called to excess quantities of office equipment, insufficient utilization of motor vehicles and aircraft, possible overstaffing of personnel employees, excessive number of emergency purchases, inadequate review of budgetary data, weaknesses in control of cash receipts and receivables, and other matters of a comparable nature.

In addition the Administrator was advised, in a letter report, of various deficiencies relating to property accountability and the subordinate position assigned to the internal audit staff.

The audit report on the Washington National Airport for the fiscal years 1953 and 1954 calls attention to deficiencies in the policies and procedures followed in making and administering concession contracts; comments on a lease agreement, which the GAO held was made in contravention of law, authorizing the building and operation of a lounge in the terminal building; and notes the need for improvement in accounting at the airport as well as more frequent internal audits by CAA.

Proposed incorporation of Washington National Airport

General Accounting Office furnished the Senate Committee on Interstate and Foreign Commerce various data concerning airport concessions during the committee's hearings on S. 3435, 83d Congress, a bill to incorporate the Washington National Airport. In addition, their representatives testified before the committee. The General Accounting Office did not favor incorporation of the airport because it held that the desired flexibility of financial management could be attained through a working-fund arrangement.

Internal auditing

Internal auditing in the Civil Aeronautics Administration has existed on a limited scale since September 1952. The internal audit group originally consisted of a staff of seven auditors. However, at September 1, 1955, the GAO reported that there were only two employees engaged in auditing work, that they operate out of the Washington, D. C., office, and that no internal audit organizations exist in the CAA regional offices.

Since inception of the internal audit program in September 1952, each CAA accounting office has been audited at least once. No audit was performed at the Washington National Airport until September 1954, although preliminary work there in 1952 indicated that unsatisfactory conditions existed and that many improvements were necessary.

The CAA internal audit unit has always been an integral part of the Accounting Division and functions as part of the division chief's staff. It is primarily concerned with the compliance by CAA's accounting office with procedures set forth in their accounting manual. The General Accounting Office has recommended that the internal audit group be placed at a higher level of authority within the organization and that its scope be more comprehensive.

NATIONAL BUREAU OF STANDARDS

The National Bureau of Standards is the principal agency of the Federal Government for fundamental research and related technical activities in the scientific fields of physics, mathematics, chemistry, and engineering. The Bureau was created as an agency within the Department of the Treasury by the act of March 3, 1901 (31 Stat. 1449). On July 1, 1903, the Bureau was transferred to the then newly created Department of Commerce and Labor. When this Department was divided into the two present Departments on July 1, 1913, the Bureau remained as a part of the Department of Commerce.

The operations of the Bureau are financed by direct appropriations from the Congress for its basic program and advances and reimbursements from other Government agencies for sponsored programs. Expenditures are made originally from a working-capital fund established by the Deficiency Appropriation Act, 1950 (64 Stat. 279), in the amount of $3 million, and increased to $5 million by the Department of Commerce Appropriation Act, 1952 (65 Stat. 593). The working-capital fund is wholly reimbursed from the direct appropriations to the Bureau and from advances or direct reimbursements from other Government agencies.

The administration of the Bureau is vested in a Director, who is appointed by the President with the advice and consent of the Senate. His administration of the Bureau is under the general direction of the Secretary of Commerce. There are four associate directors who assist and advise the Director on all scientific and technical matters, a director of the Boulder laboratory, and an assistant director to supervise the administrative services of the Bureau.

General Accounting Office audits

In 1949, the Committee on Appropriations of the House of Representatives requested the Comptroller General to make a survey of the accounting procedures, methods, and practices of the Bureau. An informal survey report indicating the need for improvement in the Bureau's accounting system was given to the Secretary of Commerce and the Bureau in December 1949. On July 1, 1950, a new accounting system was installed by representatives of the Bureau, the Department of Commerce, and the General Accounting Office in conjunction with the establishment of a working-capital fund authorized by the Deficiency Appropriation Act, 1950 (64 Stat. 279). On November 1,

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1950, the Comptroller General informed the Secretary of Commerce that the National Bureau of Standards had been assigned for comprehensive audit.

The General Accounting Office has made comprehensive audits of the National Bureau of Standards for the fiscal years 1951 through 1954 and submitted reports to the Congress on May 10, 1954, December 31, 1954, and November 1, 1955.

The "billing differential"

The GAO pointed out that for many years it has been the practice of the National Bureau of Standards to apportion its overhead expenses on a basis resulting in charges against other Government agencies in excess of the actual cost of performing work or services for them under the provisions of section 601 of the act of June 30, 1932, as amended (31 U. S. C. 686). This had the effect of augmenting the Bureau's annual appropriation for operation and administration.

The Bureau sought to eliminate the need for the improper practice through requesting increase and consolidation of its appropriations. This was accomplished with the passing of the act making appropriations for the Department of Commerce for the fiscal year 1956.

Deficiencies in fiscal management

The General Accounting Office reports also commented on numerous deficiencies in the financial administration of the Bureau's affairs. These reports disclosed a lack of an effective manual of orders, instructions, and procedures covering administrative and operating policies, and numerous deficiencies in the fiscal controls and the quality of accounting and recordkeeping. The Bureau recognized the need for improvement in the management of its fiscal affairs, and, during fiscal year 1953, a manual of instructions for accounting operations was completed. On February 5, 1953, the principles, standards, and related requirements of the Bureau's accounting system were approved by the Comptroller General. Also, measures were taken by the Bureau to improve the quality of its accounting operations, although refinements in the Bureau's accounting system are still needed.

Compliance with statutory limitations

The Congress has provided, both by appropriation language and by other legislation, several limitations applicable to the Bureau's operations. In addition, funds advanced to the Bureau by other Government agencies for work or services to be performed by the Bureau are subject to the same limitations, conditions, and restrictions provided by the act appropriating such funds. In its report the General Accounting Office has repeatedly pointed out the inadequacy of the Bureau's procedures and controls to assure compliance with such statutory requirements, has cited numerous violations, and has recommended establishment of procedures to correct the deficiencies. The Bureau has made some effort to establish satisfactory procedures that will assure compliance with the legal restrictions.

Deficiencies in research and development contract administration

The audit reports of the General Accounting Office have dealt in considerable detail with deficiencies observed in the Bureau's administration of its research and development cost-type contracts. The reports pointed out a lack of clear policies about contract negotiation,

and the poor quality of the Bureau's audit of contract costs. The General Accounting Office made a number of detailed reviews of the audits completed by the Bureau. As a result of these reviews, the Bureau has demanded repayments from various contractors of approximately $525,000 of excessive reimbursements. Approximately $70,000 had been recovered by December 1955.

The audit reports to the Congress for the fiscal years 1953 and 1954 referred to deficiencies in the Bureau's negotiation of contracts in past years. Negotiation of research and development cost-type contracts is authorized by the First War Powers Act, 1941 (55 Stat. 838). The authority to contract was delegated to the Secretary of Commerce by the President in Executive Order 10210, dated February 2, 1951. By departmental order, the Secretary of Commerce has permitted the Bureau's staff to negotiate and execute contracts and amendments thereto, subject to his approval.

The auditors noted a lack of consistency on the part of the Bureau's staff concerning the necessity of obtaining the Secretary's approval of contract amendments, many of which involve additional disbursements of public funds. In relation to the important function of approving amendments without consideration, it was found that there were no Department of Commerce regulations providing guidance for the Bureau's procurement personnel in deciding when to deny a claim or recommend favorable consideration by the Secretary of Commerce. Many of the amendments without consideration, executed by the Bureau for relief to aid future research potential, particularly in the absence of serious financial difficulty of the contractor in performing current contracts, did not appear to the auditors to be consistent with the apparent intent of the Congress to authorize the granting of relief only for the purpose of maintaining current urgent defense requirements.

The General Accounting Office recommended that the Bureau formulate procedures, controls, and lines of responsibility for proper administration of research and development contracts and that the Secretary of Commerce establish such regulations concerning the making of amendments to contracts without consideration as will provide strict control over this practice.

At the close of fiscal year 1954 there were only 13 research and development contracts still in effect at the National Bureau of Standards; a large number having been transferred to the Department of Defense pursuant to an agreement between the Secretaries of Commerce and Defense. The Bureau is in the process of formulating procedures and controls over its remaining and future contract activity and is making every effort to recover the overpayments to contractors disclosed by the General Accounting Office. The Department of Commerce has assured the General Accounting Office that the Secretary will establish the required regulations which will provide strict control over the making of contracts and amendments thereto.

Internal auditing

Prior to fiscal year 1953, internal auditing was nonexistent at the Bureau. During fiscal year 1953 an internal-audit staff was organized, but it was used to reduce the backlog of accounting work rather than to carry on any internal-audit activities. The General Accounting Office recommended in its audit reports that the Bureau establish

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a broadly constituted internal-audit program to provide management with an objective appraisal of the manner in which policies and procedures have been carried out and to make recommendations for improvement as well as reporting findings regarding financial transactions. Early in fiscal year 1955, the Bureau organized a new internal-audit staff to serve Bureau management through its audit activities. It is expected that this staff will provide the Bureau with an effective internal-auditing program.

Comments of the Secretary of Commerce

The Secretary of Commerce, under date of January 13, 1956, advised the chairman of this committee, as follows:

> Our review of the extract which you furnished and of the several audit reports submitted to the Department by the General Accounting Office indicates that your report accurately sets forth findings of the General Accounting Office auditors.
>
> I wish to assure your committee and the Congress that the Department of Commerce has and will continue to make every possible effort to improve its administrative operations, and also that corrective action will be taken wherever necessary.

DEPARTMENT OF DEFENSE

The Department of Defense, originally designated the National Military Establishment by the National Security Act of 1947, was established as an executive department of the Government by the National Security Act Amendments of 1949. This Department was created as a part of a comprehensive program designed to provide for the future security of the United States through the establishment of integrated policies and procedures for the departments, agencies, and functions of the Government relating to the national security. The Departments of the Army, Navy, and Air Force were not merged, but the act provides for their authoritative coordination and unified direction under civilian control of the Secretary of Defense.

The National Security Act Amendments of 1949 also provided for improvements in accounting, budgeting, and fiscal procedures in the Department of Defense and in the military departments. It provided for the establishment of a Comptroller for the Department of Defense, who was designated an Assistant Secretary of Defense. Comptrollers were also established in the three military departments with the responsibility for all budgeting, accounting, progress and statistical reporting, and internal audit in their respective departments and for the administrative organization structure and managerial procedures relating thereto. The act also provided for performance budgets, working capital funds (stock and industrial funds), management funds, monetary inventory accounting, and controls over obligational authority.

The magnitude of the fiscal, budgeting, accounting, and auditing responsibilities with respect to the Department of Defense is demonstrated by the budget figures for fiscal year 1956. Of a total budget of $63.8 billion, $34.5 billion, or 54 percent, is for the Department of Defense.

The General Accounting Office reports indicate that constantly increasing emphasis is being placed on its various audits of military activities and expenditures. Some of these audits are made centrally at its Military Audit Branches where the accounts of accountable officers are settled. Checking accounts of military disbursing officers are

reconciled centrally in the General Accounting Office in Washington, D. C. Contract audits, procurement surveys, industrial-fund audits, and audits of civilian payrolls are made at the sites of the activities.

At the same time, the General Accounting Office is assisting the military departments in the development and improvement of their internal-audit programs and is working closely with the contract auditors of the military services who form a part of the procurement teams and whose efforts, when properly placed and properly utilized, make a constructive contribution to the effective utilization of funds appropriated for materiel and supplies.

The comments in this report cover only the specific areas in which auditing work has been performed by the General Accounting Office. Additional emphasis is to be placed on expanding audits and systems examinations to cover other operations and activities of a significant character.

DEFENSE CONTRACT AUDITS

For many years, payments under the various types of Government contracts were audited in Washington by the General Accounting Office under the provisions of the Budget and Accounting Act, 1921. These audits were based largely upon an examination of the documents sent in by the administrative offices in support of the payments, and dealt for the most part with the legality of the payments. With the enormously increased expenditures brought about by World War II, it became apparent that the centralized audit methods then in effect would be severely taxed. To meet this situation, experienced auditors were sent to the Detroit, Mich., area in May 1942 as an experimental measure to conduct the audit of cost-type contracts at the plants of large contractors. The plan was successful and greatly facilitated performance of the audit within a reasonable time after payment of the vouchers by disbursing officers. It was extended to other industrial centers starting in August 1942, and zone and area audit offices were established by the General Accounting Office.

These audits resulted in the recovery of millions of dollars which had been improperly, illegally, or incorrectly charged to the account of the Government, and demonstrated the desirability of audits at the site of operations as an essential part of the audit development by the General Accounting Office. Until 1950, these audits of payments under military contracts, although made at the contract sites, were to a large degree confined to an audit of documents in support of payments, and a determination as to the legality of the payments and conformity with contract terms.

Since 1950, the contract audit procedures have been expanded in two important respects. Emphasis has been placed upon evaluating the contractor's operations and internal controls and the effectiveness of the procedures utilized by the military departments to insure satisfactory performance by the contractor. This broadening of contract audit concepts is in consonance with the objectives of the Accounting and Auditing Act of 1950. That act authorized the General Accounting Office, in determining its audit procedures, to give consideration to the effectiveness of internal audit and control and related administrative practices of the respective agencies. Thus when the General Accounting Office finds that effective controls exist

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and that reliable audits are being made by the military department auditors, it is possible for them to reduce their detailed examination of individual transactions and to devote more effort to the broader aspects of contract auditing.

In 1954, the GAO began to make selective site examinations of negotiated fixed-price contracts containing various forms of price revision clauses. Primary emphasis is placed on evaluation of the contract prices and related negotiation procedures. These examinations, which are conducted at military procurement and audit offices, as well as at contractors' plants, have been coordinated with the reviews of cost-type contracts to provide selective site audits of all types of negotiated military procurement contracts.

Contract auditing by the military department auditors has also recognized the importance of ascertaining the adequacy of contractors' internal controls and accounting methods and procedures, supplemented by necessary tests of documents and transactions. According to the Comptroller General, this broader audit scope has provided more effective coverage.

A basic audit objective of the General Accounting Office is to determine whether the contract was administered and performed on a sound and economical basis and to obtain corrective action where found to be necessary. In general, contract audits contemplate an evaluation of the manner in which the contractor and the contracting agency have discharged their financial responsibility to the Government.

Contract audits frequently disclose instances of overpayments, unreasonable costs, deficiencies in operations, or administrative weaknesses requiring recovery of overpayments, adoption of measures to avoid recurrence, or amendments to basic procedures. Corrective action is sought as promptly as possible through the contractor and local responsible administrative officials so as to prevent continuance of wasteful or extravagant practices. The following are typical instances cited by the General Accounting Office where corrective action was taken on the basis of its findings:

1. Negotiations of a cost-plus-a-fixed-fee contract indicated that the parties intended to redetermine the fixed amount paid the contractor for home office general and administrative expense but such redetermination had not been made. As the result of General Accounting Office recommendations, the administrative agency negotiated a reduction of $73,609 a year in such payments to the contractor.

2. Discounts on material purchased by a contractor under a cost-type contract were lost because payments were withheld until the material had been inspected. Pursuant to a recommendation of the General Accounting Office, procedures were instituted to take advantage of discount privileges resulting in savings to the Government of approximately $10,000 a year.

3. Implementing another General Accounting Office recommendation, the administrative agency secured the distributor's discount of approximately 20 percent for purchases made by a cost-plus-a-fixed-fee contractor. During a 5-month period the resultant saving was about $50,000.

4. An aircraft production contractor was declaring as surplus each month small parts costing approximately $10,000 acquired for use in aircraft assembly. No effort had been made to place responsibility or to determine the reason for the accumulation of surplus parts. The recommendation of the General Accounting Office for coordination between requirements and procurements was adopted, resulting in savings of approximately $100,000 a year in the acquisition of aircraft parts.

5. The administrative auditors had not made an adequate examination to determine whether certain credits received by the contractor were passed on to the Government. The General Accounting Office called this to the attention of the administrative audit agency and as a result, refunds of contributions to a retirement plan amounting to $91,571 were recovered.

6. A contractor operating a Government arsenal under a cost-plus-a-fixed-fee contract charged rates for the sale of surplus electricity which were not sufficient to recover cost. The General Accounting Office called this to the attention of the contracting officer who revised the rates, thereby increasing the Government's revenue $16,000 in the first 6 months.

7. Acting on a recommendation by the General Accounting Office, a contractor discontinued the use of an extra set of stock record cards. This resulted in the elimination of 35 clerical positions and an annual savings of about $137,025.

8. A cost-plus-a-fixed-fee contractor operating a Government-owned powerplant split his coal purchases among a large number of suppliers. This practice resulted in excessive costs to the Government. When the situation was pointed out by the General Accounting Office, the practice was reconsidered and a policy established limiting the contract awards to the five lowest bidders. This change resulted in a saving of $28,785 in the first month's purchases.

Matters which cannot be corrected at the local level or which involve questions for higher administrative attention are reported by the General Accounting Office to the Secretary or the appropriate Assistant Secretary of the military service concerned. If policy matters affecting all three services are involved, the reports are submitted to the Secretary or Assistant Secretary of Defense. The following instances are cited by GAO as typical of such matters.

1. General Accounting Office audits of cost-type contracts revealed instances where the accounting for Government property is administered by separate staffs for each of the three military services at the same location. In a report to the Department of Defense, the General Accounting Office recommended adoption of a uniform policy of single agency responsibility for property accountability where multiagency contracting is involved. In reply, the Department of Defense stated that the Armed Services Procurement Regulations were being revised to encourage single department property administration in such cases.

2. Predetermined fixed rates for payment of overhead costs to contractors have been used in many cost-type contracts. In some cases the use of such rates has resulted in wide variances between the payments made for overhead and the actual costs incurred.

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The General Accounting Office suggested to the Secretary of Defense that such overhead rates be used only as provisional rates for current reimbursements to contractors, and be subject to periodic adjustment to actual costs. While the reply from the Department of Defense did not express agreement with these views, it indicated that the matter is being reappraised, with a view to providing additional guidance on the subject in the Armed Services Procurement Regulations.

3. A General Accounting Office report to the Assistant Sectary of the Air Force disclosed that a cost-type prime contractor was renting a building from one of its divisions at a rate which included an annual profit of approximately $146,500. The report expressed the view that this profit should not be included in the allowable overhead, since the rental allowance should be limited to actual cost. This was based on the principle that the profits under cost-type contracts should be reflected in the fixed fee rather than in "cost" reimbursements. In this case, the division which owned the building had been a subsidiary company of the prime contractor at the time the contracts were negotiated and the contracting officer did not consider the effect of the reorganization on the contract. The General Accounting Office recommended that the profit be eliminated on this intracompany transaction and that efforts be made to recover the excess costs incurred. The Air Force reply recognizes the principle contained in the report, and indicates that corrective action will be taken as to future procurement.

4. Under fixed-price contracts containing provision for price redetermination, the contractor's experienced costs were far less than anticipated, with the result that realized profits were 47 percent greater than those contemplated at the time of the initial price revisions. The excessiveness of the contract prices in relation to incurred costs appeared attributable to a failure to obtain and properly use current cost data, and to the relinquishment of subsequent price revision rights when making the initial price redetermination. Although the contractor subsequently made a voluntary price reduction of $184,164 out of total additional profits of $505,144, the General Accounting Office pointed out that reliance upon contractors' voluntary price reductions affords no reasonable assurance of close prices in redetermination-type contracting. It also stated that a more satisfactory result would have been obtained by proper utilization of cost data and by retention and exercise of options to request additional price revisions. The General Accounting Office also recommended that the submission of periodic cost data be required in those contracts providing for subsequent price revisions. The Chief of Ordnance stated that he concurred with this suggestion and that the recommendation had been referred to higher authority for consideration. In reply to a similar recommendation included in the General Accounting Office report on survey of procurement practices of the Army Ordnance Corps, the Department of Defense and Department of the Army stated that their procedures will be revised to provide for the periodic submission of cost data by the contractors.

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5. Although section XV of the Armed Services Procurement Regulations sets forth the cost principles applicable to cost-type contracts, no comparable basic cost principles have been established by the Department of Defense for use in other negotiated contracts, despite the need for such principles, especially under fixed-price contracts with price-revision clauses which are negotiated primarily on the basis of estimated and/or experienced cost. About 80 percent of military procurement is under negotiated contracts and most of this is under contracts for which cost principles have not been established. The lack of such cost principles has resulted in differences between the contracting parties as to the items of costs to be included in contract pricing. It has also hindered effective coordination between administrative agency auditors and contracting officers. The General Accounting Office has recommended to the Department of Defense, in a report dated April 15, 1955, on procurement practices of the Army Ordnance Corps, and also in a separate letter to the Secretary of Defense dated June 1, 1955, that action be taken to establish a single set of uniform principles for the determination of costs under all types of defense contracts where cost is a significant element in contract pricing. This matter is still under consideration by the Department of Defense. On September 19, 1955, the Secretary of Defense notified the General Accounting Office that this matter was the subject of a separate report being submitted in response to the letter dated June 1, 1955. The GAO reports that the Secretary has not yet submitted that report.

6. The General Accounting Office made a survey of the activities, including a test review of individual actions, of the Army, Navy, and Air Force Contract Adjustment Boards.

These boards operate separately within the three military departments for the purpose of granting relief to contractors under authority of title II of the First War Powers Act, as amended, and Executive Order 10210, dated February 2, 1951. The regulations under which they operate are expressed in general terms, vesting broad discretionary powers in the boards. Actions of the boards have dealt with the granting of relief to contractors through amendments without consideration, and to a lesser extent with correction of mistakes in contracts, and formalization of informal commitments. Decisions by the boards are final.

From their inception early in 1951 to December 31, 1953, the 3 boards acted on 214 requests totaling $49,469,636, of which 148 were approved for amounts totaling $23,195,171 and the balance denied. The relief actually afforded the contractors may sometimes be less than the amount shown because in some instances the amount is a maximum, subject to reduction on the basis of ultimate costs experienced.

The General Accounting Office stated in its report that, in general, the decisions of the boards which were reviewed appeared reasonable in relation to their broad authorizations and objectives and consistent with the information presented to the boards. However, there were presented in the report as a matter of information two decisions of the Army board which the General Accounting Office considers questionable in certain aspects.

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During the survey, it was observed that the regulations governing the use of the extraordinary authority to amend contracts without consideration have recently been revised to permit delegation below the board level in each department, by the Under Secretary or Assistant Secretary for Procurement of the department involved.

The General Accounting Office also observed that the procedures for reporting of actions relating to the granting of relief to contractors by the boards and by the various procuring agencies under title II of the First War Powers Act had not operated effectively. The auditors recommended that in the interest of simplifying and making more effective use of these reports, as well as establishing control mechanisms to assure accuracy and completeness of report data, the overall reporting requirements and related practices should be reexamined. Following this recommendation the General Accounting Office was informed that a committee, established in the Department of Defense to review recurring reports required from the military departments by the Office of the Assistant Secretary of Defense (Supply and Logistics) would consider the reporting requirements under title II.

MILITARY PROCUREMENT

In addition to auditing defense contracts as described in the preceding section, the General Accounting Office has expanded its audit approach to include a review of the procedures leading to the award of the contract. The first survey of this kind was started by the General Accounting Office in October 1951 in the Army Ordnance Corps, the largest single spending agency in the Government at that time. Subsequently, the procurement survey was extended on a limited scale to the Department of the Air Force, with special attention devoted to the Air Force policies and procedures relating to the computation of requirements for and the procurement of spare aircraft engines.

DEPARTMENT OF THE ARMY

General background

The procurement survey of the Army Ordnance Corps began on a limited scale in October 1951 at selected Ordnance centers, arsenals, and depots. On March 18, 1952, the survey was extended to the 14 Ordnance district offices. Upon completion of the preliminary survey, detailed examination was made of 50 selected negotiated contracts in each district office in order to determine as completely as possible all aspects of the negotiation processes. Over 700 contracts were examined involving some $9.7 billion.

Audit findings

The General Accounting Office reports that many weaknesses were disclosed during the survey. These included such matters as failure to solicit competitive proposals, inadequate preaward surveys for appraising contractors' technical or financial ability, improper usage and inadequate negotiation of price-redetermination-type contracts, lack of proper recognition of reduction in contractors' normal risks

in arriving at profit rates under contracts providing for upward price revisions, payment of widely varying prices for identical items, inadequate inventory controls, loose administration of contract provisions, and failure to maintain proper files dealing with various procurement actions. These reported weaknesses were brought to the attention of local Ordnance officials through the issuance of more than 500 letters in connection with audit findings under individual contracts.

In addition, special reports were prepared in order to bring significant matters to the attention of top agency officials and to the Congress.

The major recommendations made in these reports are summarized below, with the actions taken by the military departments.

1. That the use of cost-plus-a-percentage-of-cost subcontracts under price-redetermination or incentive-type prime contracts be prohibited. This recommendation has been adopted.

2. That the use of contracts providing for redetermination of prices after completion be limited to special conditions with individual justification in each instance. This recommendation has been adopted.

3. That the blanket usage of emergency authority to contract under section 2 (c) (1) of the Armed Services Procurement Act of 1947 by appropriate use of 16 other provisions authorizing negotiation of contracts under section 2 (c) of the act be reduced. The Deputy Assistant Secretary of Defense (Supply and Logistics) has advised that the emergency authority under 2 (c) (1) will be restricted to limited types of procurement effective January 1, 1956.

4. That reproduction rights, at least, be obtained by contractual provisions with respect to articles developed at Government expense, including wherever practicable license rights, properly compensated for, to any special components to which the contractor has proprietary rights, but which are essential to the reproduction of the article being developed under the contract; and that manufacturing drawings and other technical data necessary to reproduce the articles developed under research and development contracts and to which the Government is entitled, be obtained, properly maintained, and effectively used. In letter dated March 28, 1955, to the Comptroller General, the Assistant Secretary of Defense (Supply and Logistics) commented on the report and enclosed a revision and proposed revision to the Armed Services Procurement Regulations.

5. That shell steel procurement since 1950 be reviewed. Ordnance Corps regulations have been strengthened and Ordnance officials are reviewing payments previously made.

The following recommendations were among those included in the General Accounting Office summary report on survey of procurement practices of the Army Ordnance Corps submitted to the Secretary of Defense in April 1955:

1. Develop and clarify the Armed Services Procurement Regulation to establish it as the primary military procurement guide.

2. Prohibit the use of price redetermination contracts providing for unlimited price revision.

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3. Establish audit guides for use in evaluation of cost data and estimates under price-redetermination contracts.

4. Limit the use of price-redetermination contracts for research and development.

5. Establish profit policies on facility-type charges, such as plant rearrangement, special tooling, and installation costs. In the absence of Defense policy restrict inclusion of such profit in negotiated contracts.

6. Reemphasize, with respect to negotiated contracts, the establishment of realistic delivery schedules.

7. Provide for use and enforcement of appropriate penalty clauses where the delivery schedule is an important factor in the selection of a contractor and the determination of the price to be paid.

8. Establish a liaison arrangement at each of the larger procurement offices for a top Army Audit Agency representative to serve in an advisory capacity to the contracting officer.

9. Revise administrative instructions to encourage use of incentive-type contracts containing designated sliding scales of profit in cases where reasonably close targets may be established at or near the beginning of production under the contract.

10. Revise the Army Procurement Procedure regarding exercise of the disputes article in price redetermination contracts to encourage the contracting officer to avail himself of this contractual provision in cases where he is not satisfied that a fair price is otherwise obtainable.

11. Reemphasize the importance of conducting negotiations to the fullest extent practicable while other potential sources of supply are being actively considered, and before a supplier has been authorized to incur facility and production costs.

12. Require that whenever a substantial change is made in the Government's requirements in the course of negotiation, for example, a material change in the delivery schedule, that eliminated bidders be given further opportunity to make proposals under the revised requirements.

13. Revise administrative delegations to avoid shifting of the negotiation responsibility for an individual contract between field offices.

14. Realign authority in the Army Ordnance Corps to concentrate negotiations with large contractors at locations at which the strongest negotiating teams can be effectively utilized.

15. Identify the element of estimated profit in negotiated contract prices, and make this information a matter of record in the negotiation files.

16. Expand guides for recognition of factors whereby a fair profit for price redetermination contracts may be measured.

The Deputy Secretary of Defense, in a letter dated September 19, 1955, submitted comments on these recommendations, which are being evaluated. His letter stated further that—

> The summary report prepared by your office [General Accounting Office] is one of the most comprehensive procurement studies that has been reviewed by this office. It is believed that studies such as this afford the greatest opportunity to contribute to the improvement of our procurement policies and procedures.

DEPARTMENT OF THE AIR FORCE

General background

Early in 1952 the General Accounting Office began a survey of procurement policies, practices, and procedures at Headquarters, Air Materiel Command (AMC), Dayton, Ohio, to determine whether the policies and management controls of the Air Force were adequate to protect the interests of the Government in negotiated contracts. In 1953 the survey approach was expanded to include a review to determine whether Air Force policies, procedures, and practices assured development of current and valid requirements, and whether appropriate procurement actions are taken to obtain the quantities required.

The survey of requirements policies and procedures in the Air Force has been concentrated on the need for spare aircraft engines. This work has been conducted at Headquarters, AMC, which is the control point for transmitting engine requirements to procurement personnel, and at the Oklahoma City Air Materiel Area which is one of the prime depots for computing spare-engine requirements. Initially, three engines were selected for an exhaustive historical review of the method of computing requirements, the requirements factors, the steps involved in implementing a program, and the controls between requirements and procurement. On the basis of experience gained from this initial survey a continuing review was instituted of the requirements for all spare engines being purchased in support of stabilized aircraft programs.

Audit findings

The General Accounting Office found that both the Air Force and the Navy require aircraft manufacturers holding price-redetermination type contracts to bear responsibility for airplanes stored in the open pending final delivery to the Government. In view of this risk, the manufacturers purchase insurance on these airplanes, the cost of which is absorbed by the Government inasmuch as the contractors' costs affect the redetermined contract prices. The General Accounting Office has recommended to the Secretary of Defense that the Government's long-standing practice of self-insurance be adopted with respect to these planes. This matter was covered in a report to the Secretary of Defense and the Secretaries of the Departments of the Navy and the Air Force. The Committees on Appropriations, Armed Services, and Government Operations of both the Senate and the House were furnished copies of the report.

The staff of the Senate Committee on Government Operations was directed to make an analysis of the GAO report, submitted to it on February 11, 1955. After reviewing the GAO charges in its survey, the Department of Defense analysis of the survey, and comments and appraisal of the Department of Defense analysis by GAO, a staff memorandum (staff memorandum No. 84–1–15) was submitted to members of the committee on May 11, 1955, setting forth the basic facts involved. The Secretary has advised that the recommendation is being adopted, and it is estimated that hundreds of thousands of dollars will be saved annually.

The General Accounting Office survey disclosed a large overprocurement of jet engines. When this was brought to the attention of

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the Air Force, an outstanding contract was reduced to the extent economically possible with an estimated saving of between $50 and $60 million and planned procurement was decreased by approximately $10 million. Further examination of requirements for other spare engines phasing out of production revealed other instances of overprocurement and resulted in further cutbacks by the Air Force.

Based on the findings of the engine-requirements survey, a number of recommendations, designed to improve control over these costly items, have been submitted to Air Force officials. This has led to changes in the method of reporting requirements, in the management responsibility for certain functions, and in the control of significant requirements documents. The General Accounting Office is continuing to study and to discuss with the Air Force other procedural problems in this complex area.

INDUSTRIAL FUNDS

Section 405 of the National Security Act Amendments of 1949 (63 Stat. 587), authorizes the Secretary of Defense to require the establishment of working-capital funds in such industrial-type or commercial-type activities as provide common service within or among the departments and agencies of the Department of Defense.

There has been established in each of the three military departments a consolidated working-capital fund. These funds are known as the Army Industrial Fund, the Navy Industrial Fund, and the Air Force Industrial Fund. It is the purpose of each departmental industrial fund to provide a more effective means for controlling the cost of goods and services produced by industrial- and commercial-type establishments and a more effective and flexible means for financing, budgeting, and accounting for such operations.

The Secretary of Defense was authorized to provide working capital for the industrial funds, with the approval of the President, by transfer, until December 31, 1954, from unexpended balances of any appropriations of the military departments not carried to the surplus fund of the Treasury. Additional working capital is provided by capitalizing the inventory on hand at the installation when it is placed under the departmental industrial fund. Initial cash allocations have ranged from $85,000 for the Army Printing Service, St. Louis, Mo., to $100 million for the Military Sea Transportation Service.

Industrial- and commercial-type establishments are brought under the consolidated funds by the issuance of a charter that must be approved by the Comptroller of the Department of Defense.

The General Accounting Office has agreed to make comprehensive audits of all industrial fund installations in the Department of Defense that were in existence prior to December 1, 1954. Industrial funds established after that date are considered for comprehensive audit by that office on the basis of the circumstances in each individual case.

At the time an activity is placed under an industrial fund, an accrual basis accounting system, designed to meet the needs of the particular installation, is developed and installed. This often results in radical changes in the existing accounting system and, because of those changes, it sometimes requires several months to fully develop the system and to obtain trained personnel to operate it. For this

and other reasons, it is the policy of the General Accounting Office to defer the initial examination of these installations until at least a year, and preferably 18 months, after the commencement of activities under industrial fund financing. Further, the General Accounting Office does not consider it necessary or advisable to schedule audits of industrial funds on an annual basis, but schedules its audit coverage of these installations so that audits will be performed at the site at intervals of approximately 24 months, without regard to a particular fiscal year ending.

General Accounting Office audits

Prior to the assignment of the installations for comprehensive audit, all expenditure and receipt vouchers, except those relating to civilian pay, were submitted monthly to the General Accounting Office for audit at a central location. Disbursements and receipts relating to civilian pay were audited periodically at the location of the payroll records.

In its report on budgeting and accounting, submitted to the Congress on February 24, 1949, the Commission on Organization of the Executive Branch referred to this practice, as follows:

> The meaning of this language (sec. 305 of the Budget and Accounting Act of 1921) has been determined over a period of years by various opinions and decisions of the Comptroller General. In fulfilling his responsibilities under this section the Comptroller General now requires administrative agencies of the executive branch to submit all expenditure vouchers and supporting documents for every individual transaction to the General Accounting Office for examination and "settlement." This is a costly system. It means freight carloads of vouchers from all over the United States hauled to Washington for individual examination in the General Accounting Office.
>
> New arrangements should be made for the examination of vouchers at points mutually agreeable to the Comptroller General and the department heads concerned. This was done during the war in the case of the War Department.
>
> Therefore, the Commission recommends:
>
> That the practice of sending millions of expenditure vouchers and supporting papers to Washington be stopped as far as possible (p. 41–52).

Although the GAO had already initiated action to discontinue sending paid vouchers, schedules of receipts, and disbursements and other supporting papers to Washington before the Hoover Commission submitted its report, the Commission's interest in this phase of administrative examination of disbursing officers' accounts facilitated acceptance throughout the Government of the broad application of this procedure.

Comprehensive audits for industrial funds at the following locations have been completed.

	Fund installed	Period audited
Army Printing Service, St. Louis, Mo.	Sept. 1, 1951	Sept. 1, 1951 through Nov. 30, 1954.
Charleston Naval Shipyard, Charleston, S. C.	June 5, 1953	July 1, 1953 through Oct. 31, 1954.
Defense Printing Service, Washington, D. C.	Nov. 1, 1949	July 1, 1952 through Nov. 30, 1954.
Marine Clothing and Equipment Factory, Philadelphia, Pa.	July 1, 1953	July 1, 1953 through June 30, 1954.
Military Sea Transportation Service	July 1, 1951	(4).
Norfolk Naval Shipyard, Portsmouth, Va.	June 5, 1953	July 1, 1953 through Nov. 30, 1954.
Navy Printing Service	(1)	
Manufacturing Division, Quartermaster Depot, Philadelphia, Pa.	July 1, 1951	July 1, 1951 through June 30, 1954.
Picatinny Arsenal, Dover, N. J.	July 1, 1951	July 1, 1951 through June 30, 1953.
Rocky Mountain Arsenal, Denver, Colo.	July 1, 1951	(2).
Naval Ordnance Plant, Forest Park, Ill.	Jan. 1, 1953	(2).
Air Force Printing Service, San Antonio, Tex.	July 1, 1954	(3).
Naval Ordnance Plant, York, Pa.	Aug. 1, 1951	Aug. 1, 1951, through Jan. 31, 1955.
Naval Ordnance Laboratory, Corona, Calif.	Sept. 27, 1953	Sept. 27, 1953 through June 30, 1955.

[1] The Navy Printing Service consists of a central office in Washington, D. C., and 23 field plants. The Navy Printing Service as such was placed under the Navy industrial fund Sept. 1, 1951. The individual plant locations, however, were brought under the fund at varying dates after Sept. 1, 1951. Audits were made at selected field plants from various dates to Dec. 31, 1954, and a consolidated report prepared.

[2] Comprehensive audits have been completed for the period July 1, 1951, through June 30, 1953, for Rocky Mountain Arsenal, Denver, Colo., and for the period Jan. 1, 1953, through Sept. 30, 1954, for the Naval Ordnance Plant, Forest Park, Ill. Comments on these periods will be consolidated with the reports on the audits of these installations which are scheduled to start before the end of the fiscal year 1956.

[3] A comprehensive audit was completed at this installation but a formal report was not required.

[4] Comprehensive audits have been completed on the activities of the Military Sea Transportation Service (MSTS) through June 30, 1953. In addition to this work, a survey of the operations of MSTS in relation to the commercial shipping industry was made at the request of a special subcommittee of the Merchant Marine and Fisheries Committee, House of Representatives.

As a result of findings made during comprehensive audits, recommendations have been made by the General Accounting Office which the Office reports should result in more economical and efficient operations. Examples of the types of recommendations made and the action taken by administrative officials are as follows.

Philadelphia Quartermaster Depot, Manufacturing Division

The present mission of the Manufacturing Division is to operate a factory for the design, manufacture, and alteration of various types of clothing and equipment. As a pilot factory, the Division serves in an advisory capacity to commercial contractors in regard to methods of manufacturing, preparation of specifications, manufacturing costs, and the establishment of unit allowances. A portion of the Division's manufacturing operation is the production of special measurement and odd-size uniforms, and uniforms of sizes in short supply in the Quartermaster distribution system.

1. A number of recommendations were made which were designed to improve the effectiveness of budgeting and accounting as a means of financial control. These recommendations covered such areas as comparing actual production cost with estimated cost concurrent with actual production in order to evaluate the effectiveness of production from the cost standpoint as the work progresses; prompt closing of job orders to permit timely final billing to customers after final shipment; revising cost estimates for individual jobs when quantities of production called for in job orders are materially changed. All suggestions in this field were adopted.

2. A review of production reports disclosed that although certain stages of production were reported to management there were many other important stages that were not reported. A recommendation was made to the factory management that production reporting requirements be revised so as to show quantities flowing in sequence from one operation to another to provide for control of work in process

through the various stages of production. The factory management recognizes the deficiencies in production reporting and is experimenting with a system to control production through the various stages of manufacture.

3. As one of the last steps in the manufacture of garments they are flat pressed. As a result of the length of time and conditions involved in packing, shipping, storing, and alterations required before issue, additional flat pressing must be done at the point of issue. A recommendation was made to the Quartermaster General that the flat-pressing operation be discontinued not only at the factory but also at commercial contractors' plants where far larger quantities of uniforms are being manufactured and where the adoption of this suggestion would result in far greater annual savings. Certain pressing operations have been discontinued as a result of this recommendation but others are still being performed. The General Accounting Office will pursue this further during the next examination of this installation.

4. Individual special measurement uniforms are made to order for those individuals who cannot be fitted from the regular schedule of sizes. As this method interferes with regular production and results in excessive costs a recommendation was made to the factory management that a survey be made to determine whether special measurement uniforms for those persons who cannot be fitted from the regular schedule of sizes can be produced in quantity lots rather than on a special job basis for each individual. The factory has adopted this recommendation and has a survey underway which is also likely to reveal the possibility of extending the present schedule of sizes.

Picatinny Arsenal

Picatinny Arsenal is one of several arsenals under direct management of the United States Army Ordnance Corps. The Arsenal's principal activities, financed by the Army industrial fund, related to research and development of ordnance ammunition items, manufacture of such items, planning industrial mobilization, some storage or depot activities, and other activities of a miscellaneous nature.

1. A number of recommendations were made which were designed to improve cost control through such means as independent verification of the accuracy of labor-cost distribution and employee attendance; the establishment of standards for supervisory personnel requirements in relation to employees supervised; a consistent basis for the accumulation and application of supervisory and other indirect labor costs; the strengthening and standardization of procedures relating to the recording and reporting of material costs and usage; and the establishment of sound bases for distributing administrative and other indirect costs. The recommendations in this field were concurred in and action has been taken by the arsenal to improve cost controls as suggested.

2. A review of arsenal supply procedures revealed such inadequate control over materials that virtually no reliance could be placed on reported quantities or amounts. A recommendation was made to the arsenal that it take immediate action to physically inventory and price all property and inventories under its control and to bring these assets under proper physical and accounting control. The Chief of Ordnance concurred in this recommendation and stated that "aggressive action is being taken to inventory physically and price all prop-

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erty and inventories under control of the arsenal so as to bring these assets under proper physical and accounting control."

Marine Corps Clothing and Equipment Factory

The factory's principal activity during fiscal 1954 was the manufacture of regular stock clothing and supply items. In addition, the factory manufactured special measurement clothing for enlisted personnel, altered and repaired products for the Marine Corps and the Air Force, and manufactured miscellaneous items for the Navy. Other minor activities involved making experimental and standard samples, design and pattern work, and special items for depot use.

1. The General Accounting Office made a number of recommendations designed to improve inventory controls and to permit more accurate costing. These recommendations included such matters as establishing a single authority for controlling all inventories; the institution of perpetual inventory records for cutting findings; and the periodic reconciliation of subsidiary records with controls. These recommendations were adopted.

2. Shade control is part of the manufacturing process for most garments manufactured by the factory, including utility garments. It was recommended that the factory eliminate shade ticketing of all utility garments for the purpose of shade control because of the purpose for which the garments are intended and the resultant savings to the Government. This suggestion was not accepted and the practice continues.

Norfolk Naval Shipyard and Charleston Naval Shipyard

The Norfolk Shipyard and the Charleston Naval Shipyard are 2 of the 11 naval shipyards under the direct management of the Department of the Navy. The principal activities of these shipyards, financed by industrial funds, relate to shipwork and include the design, conversion, overhaul, repair, alteration, and inactivation or reactivation of naval vessels as assigned by the Chief of Naval Operations and the Bureau of Ships. These shipyards also perform emergency repair work on vessels of foreign governments and private companies. In addition, manufacturing and service work are performed for naval and other governmental departments and for private firms on a limited basis.

1. Instances were noted where work had been canceled due to the unavailability of plans. Other shipyards also apparently have backlogs of design work which may be the principal reason for cancellations due to lack of plans. It was recommended that the Bureau of Ships take such action and issue such instructions as may be appropriate to have the design work at all shipyards brought to a current status. The Bureau of Ships has adopted this recommendation and as a recent step in the solution of this problem, has initiated an estimated civilian personnel requirements reporting procedure which will enable the Bureau better to foresee possible bottlenecks and backlogs and to make adjustments in design work assignments between shipyards.

2. A review of timekeeping and labor cost processing procedures revealed that cost information as accumulated and reported could not be used effectively to measure and evaluate productive effort because of loose controls over costs. A recommendation was made to the Bu-

reau of Ships that it require actual timekeeping to be done by timekeepers independent of shop personnel. The Bureau did not agree with this recommendation; however, the Comptroller of the Navy advised that this area will be studied in a survey of the Charleston Naval Shipyard.

3. Under present costing procedures labor charges are processed through the shipyards' records using actual pay rates. In order to eliminate this detailed and expensive procedure it was recommended that the shipyards adopt average shop labor rates for labor-costing purposes. The Bureau of Ships has requested authorization from the Navy Comptroller to use average shop labor rates for a 6-month trial installation at Norfolk Naval Shipyard and, based on the outcome of this test, may extend the procedures to its other shipyards.

4. A review of the shipyards' working capital positions indicated that they had possibly several million dollars of working capital in excess of their day-to-day operating requirements. It appears these excess funds resulted principally from overestimating capital requirements and underestimating inventories at the time the funds were originally capitalized. It was recommended that the Comptroller of the Navy reevaluate the shipyards' working-capital requirements and return any excess to the reserve fund. The Comptroller of the Navy advised that this would be done at these shipyards. In addition, all shipyards have been instructed to recompute their working-capital requirements.

5. It was noted that a critical comparison of actual with estimated performance on jobs was not being made. Such a comparison is necessary to check on the adequacy of job standards, job estimating, and the yards' performance. In order to obtain maximum use of the production control program at the yards it was recommended that management require a continuing critical comparison of actual with estimated performance. The shipyards concurred with this recommendation and advised that such a comparison will be made.

CENTRALIZED AUDITS OF ACCOUNTS OF MILITARY DISBURSING OFFICERS

The accounts and vouchers of military disbursing officers are submitted to military finance centers in Indianapolis, Cleveland, and Denver, where they are turned over to the General Accounting Office for audit by its Army Audit Branch located at the finance center in Indianapolis, its Navy Audit Branch in Cleveland, or its Air Force Audit Branch in Denver. The audits at these locations are exclusive of the contract audits, procurement surveys, the audits of industrial funds, and the audits of civilian pay, performed at the site of operations.

The major objectives of the audits performed by the General Accounting Office at its Military Audit Branches are to ascertain whether expenditures of public funds, as reported in the accounts of disbursing officers, have been made in accordance with law; to report major areas of error to disbursing officers and to the department concerned to prevent repetition; to evaluate regulations, procedures, and controls governing expenditures of public funds and to make appropriate recommendations for improvement; and to determine whether administrative audits at the finance centers adequately fulfill departmental responsibility.

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A selective audit is performed at these locations in consonance with the provisions of the Accounting and Auditing Act of 1950 authorizing the General Accounting Office to give due consideration to the effectiveness of the accounting systems, internal audit and control, and related administrative practices of the respective agencies in the determination of auditing procedures to be followed and the extent of examination of vouchers and other documents.

A feature of the General Accounting Office audits at these locations is the cooperative effort to assist the departments in improving the quality of their audits. The Army Finance Center at Indianapolis was encouraged to assume greater responsibility in the administrative examination of military pay records and related documents and auditors were assigned to assist in the training of personnel and to furnish technical advice and assistance. The General Accounting Office furnishes reports of audit findings to the Army Audit Agency, which recently established a liaison office at the finance center, to assist it in the conduct of audits at installations away from the center. Reports of the Army Audit Agency are furnished to the General Accounting Office, providing an exchange of information and establishing a contact point between the centralized audit and the points of origin of basic audit documents.

The General Accounting Office has assisted the Navy Department in developing its internal audit program by furnishing detailed analyses of the sources and types of errors disclosed through its audit at the Navy Finance Center. These have served to pinpoint responsibility and to create a general awareness of fiscal responsibilities in those areas.

The guides, recommendations, and audit instructions given by the General Accounting Office have played a major part in initiating and improving the administrative audit program at the Air Force Finance Center.

Following are some of the significant audit findings reported by the General Accounting Office in its audits of the accounts of military disbursing officers.

Erroneous payments to ROTC graduates.—The Department of the Army has been informed that credit will be disallowed for erroneous payments of about $370,000 to former members of the ROTC for the period between their acceptance of appointment in the Regular Army and departure to their initial duty station. The Chief of Finance has since instructed disbursing officers to discontinue such payments and to initiate collection action. However, during the 1st session of the 84th Congress, a bill was introduced to validate these payments and to authorize payments, not previously made, for periods prior to date of enactment of the bill. The bill passed the House but was not acted upon in the Senate.

Mustering-out payments.—The Department of the Army has been notified of over $1,300,000 of erroneous payments of mustering-out pay. A vast number of duplicate payments were made, and other erroneous payments resulted from the widespread failure of disbursing officers to apply properly the conditions for payment imposed by the Veterans' Readjustment Assistance Act of 1952. The Chief of Finance has advised that revised regulations will provide more stringent controls.

Mixed travel.—Overpayments of about $462,000 have been noted as arising from improper application of the Joint Travel Regulations, with regard to mixed travel (performed by Government and other means of transportation), and the regulations governing settlement of advance travel payments. As a result, the regulations have been changed to provide more explicit instructions to disbursing officers.

Payments of accrued leave.—There has been brought to the attention of the Department of the Army for collection action overpayments of about $604,000 to military members upon separation from the service. Similar overpayments were noted in the accounts of Navy and Air Force disbursing officers.

The need for a complete study of the procedures for recording leave and for the payment of unused leave was brought to the attention of the Assistant Secretary of Defense by the General Accounting Office on December 10, 1954. This matter is now being considered by the Assistant Secretary.

Group travel overpayments.—There was brought to the attention of the Department of the Army overpayments of $673,000 resulting from payment of the full per diem allowance to military personnel traveling in a group travel status on permanent change of station when they were entitled to a prorated amount only for the actual time of travel. The situation was corrected by a change in the regulations, effective July 1, 1953, providing for proration of per diem for fractional parts of a day.

Also, excessive expenditures were observed in the audit because of failure to issue group-travel orders as required by the Joint Travel Regulations when three or more military members travel to the same destination on either a permanent or temporary change of station. The General Accounting Office recommended that the military departments take steps to define specifically the conditions under which group travel should be designated in the orders. This recommendation is being considered by the military departments.

Travel to other than authorized points upon separation.—The Comptroller General advised the Secretary of Defense that payments of pay and allowances to reserve members were unauthorized in cases where excess travel time was allowed for travel from (*a*) home to first duty station, and (*b*) from last duty station to home. He also advised that payments of mileage from place of release from active duty to the place at which a change from enlisted to officer status occurred, rather than to place of original entry on active duty or to home of record, were unauthorized. The General Accounting Office has reported to the Department of the Army 7,672 overpayments, totaling $517,682, in such cases.

Although the Department of the Army issued instructions on October 5, 1954, advising disbursing officers of the proper basis of payment in these cases, the General Accounting Office audit in December 1954 indicated a continued high incidence of error.

Transportation of dependents.—The General Accounting Office has questioned the propriety of payments of more than $7 million made to military members for transportation of their dependents under circumstances presenting reasonable doubt as to whether travel had been performed or whether the travel was for the purpose of establishing a bona fide residence. As a result, the Joint Travel Regulations

have been changed to point out that entitlement to travel of dependents does not exist unless authorized travel is performed with the intention of establishing a bona fide residence and by requiring members to certify that travel was performed with that intent.

Submarine pay.—Section 204 of the Career Compensation Act of 1949 (63 Stat. 809) provides for the payment of incentive pay to members of the Armed Forces for duty aboard a submarine.

The General Accounting Office audit disclosed numerous cases where credits of submarine pay were continued for periods as long as 9 to 14 months when members were assigned to temporary additional duty other than on board a submarine. By letter dated December 17, 1952, the General Accounting Office notified the Department of the Navy that it would disallow credit for payments of submarine pay to members who were absent from a submarine in excess of 15 days. The administrative regulations were changed shortly thereafter.

Dual compensation.—The General Accounting Office audit of Navy and Air Force military retired pay accounts disclosed the possibility that retired commissioned officers, subsequently employed by and receiving salaries from Federal agencies, might also be receiving retired pay in contravention of the dual compensation statutes. A review suggested by that Office established overpayments in excess of $300,000 and precluded additional overpayments of substantial amounts.

Aviation pay.—Orders authorizing hazardous-duty pay for aerial flights were being issued by the Navy during the absence of members from an aviation-duty status, and many individuals were being credited with flying time when in fact no flights had been performed. When this matter was brought to its attention, the Department issued a revised directive and stated that aggressive action will be taken to determine the effectiveness of these instructions.

Station per diem allowances.—Members stationed at Chateauroux Air Depot, France, during the period from July 1, 1951, to June 30, 1953, were paid station per diem allowances at the rates prescribed for members with dependents residing overseas when their dependents were actually residing in the United States. The General Accounting Office disallowed credit for payments totaling $522,537. Except in a few isolated cases, the Air Force has not recovered these overpayments.

Other recommendations.—In January 1954, the Comptroller General suggested to the Secretary of Defense three areas in which major economies possibly could be realized in military travel and recommended:

1. That highway mileages be used instead of rail mileages in computing allowances for travel by automobile.
2. That mileage be paid to only 1 member when 2 or more members travel in 1 automobile.
3. That no allowances be paid for dependents traveling with a member in an automobile when mileage is paid to the member.

It was estimated that the adoption of these recommendations would save several million dollars yearly.

MILITARY SEA TRANSPORTATION SERVICE

The Military Sea Transportation Service (MSTS) was established on August 2, 1949, by a directive of the Secretary of Defense as authorized by provisions of the National Security Act of 1947 (5 U. S. C. 171). It is under the direction and control of the Department of the Navy and is commanded by a vice admiral.

MSTS is the unified entity of the Department of Defense which provides ocean transportation for personnel, equipment, and materials required by the military services for logistic support of United States Armed Forces overseas, civilian aid by the Army in certain foreign areas, and those shipments under the mutual defense assistance program for which transportation is furnished by the United States. It provides only a transportation service; i. e., its responsibility begins when cargo is stowed on board ships and passengers embark, and ends when the cargo is brought alongside at the port of destination and passengers disembark. The shoreside functions involved in handling cargo and passengers are the responsibility of the military departments, known as the shipper services.

In carrying out its responsibilities, MSTS operates Government-owned vessels of various types, and makes extensive use of commercial ships. Its activities are directed from a headquarters in Washington, D. C., through 4 commands, in New York City, San Francisco, London, and Yokosuka; 5 subarea commands; and 30 port offices.

During the fiscal year 1955, MSTS transported about 16 million measurement tons of dry cargo, 14.5 million long tons of petroleum, and 1.6 million passengers. Of these quantities about 62 percent of the dry cargo, 41 percent of the petroleum, and 3 percent of the passengers were transported by commercially operated ships under various hiring arrangements with MSTS. The expenditures of MSTS for the year totaled about $423 million.

From its inception, to July 1, 1951, MSTS was financed by the Navy management fund. Since that date, it has been financed with an industrial fund. Under this plan, MSTS bills the military departments for services rendered, at rates designed to recover the costs of the services. The General Accounting Office believes that the use of an industrial fund to finance its activities has been beneficial to MSTS and to the Government in the control of costs.

Internal auditing

MSTS has had an internal audit staff within its own organization but the GAO reports that it has not functioned effectively. The staff has generally consisted of three auditors who have frequently been assigned to projects outside the usual functions of internal audit. The committee understands that the GAO intends to recommend that the internal audit unit be reconstituted so that it can adequately perform a useful internal audit service to management. The GAO further advises that it was informed recently of plans for internal audits of MSTS to be made by the Internal Audit Division of the Navy under the overall direction of the Navy Comptroller.

General Accounting Office audits

The General Accounting Office has made audits of MSTS beginning with fiscal year 1952, in accordance with arrangements made in May

1951 between the Comptroller General and the Secretary of Defense. The scope of these audits has been in consonance with the comprehensive audit program announced by the Comptroller General in October 1949.

To date the following audit reports have been transmitted to the Congress of the United States:

Title of report	*Date issued*
Atlantic Area Command, East Coast and Caribbean Operations	April 1955
Pacific Area Command, Pacific and Mid-Pacific Operations	July 1955

A Report on Review of Cargo Loss and Damage Claims Processed by Headquarters, Military Sea Transportation Service, Department of the Navy, was submitted to the Secretary of Defense in July 1955, and copies were forwarded to interested congressional committees. In addition, a number of letter reports have been submitted to the Commander, MSTS.

In February 1954 the General Accounting Office was asked by the chairman of the Special Subcommittee to Consider Operations of Military Sea Transportation Service, House Committee on Merchant Marine and Fisheries, to assist the subcommittee in its study. Pursuant to this request the GAO made a survey of the operations of MSTS in relation to the commercial shipping industry. By arrangement with the subcommittee, the survey was aimed at ascertaining factual data required for a determination by the subcommittee of what operations presently carried on in vessels owned or controlled by MSTS could or should be handled by private shipping, what military and operational considerations should be taken into account, and whether the costs would be more or less if handled by private shipping. In addition, the survey included a determination, insofar as possible, of the total costs to the Government as a whole, of the activities handled by MSTS and those directly related thereto but paid by other agencies, based on services comparable to those of private shipping. The report on the survey was submitted to the subcommittee in July 1954.

During the course of its survey, representatives of the GAO conferred frequently with members of the subcommittee and, upon completion thereof, testified before the subcommittee at a hearing on the matter. During the hearings a member of the subcommittee stated that—

> This is the finest report we have had, and it brings to light more facts about MSTS and its hidden costs of operations than anything I have seen.

The chairman stated:

> I think you can go further and say that in the light of the hearings, which have been controversial, this report objectively puts the various views in balance.

In July 1955, the GAO was requested by the chairman of the Senate Committee on Interstate and Foreign Commerce to review certain actions by MSTS in connection with proceedings for the charter of tankers under Public Law 575, 83d Congress. Concurrently the auditors examined protests filed on the same matter by several unsuccessful bidders. Reports on its findings relative to the examination for the committee and of the protests were transmitted to the committee and the protestants on Sepember 30, 1955.

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Major findings and recommendations by the General Accounting Office

The General Accounting Office has transmitted the results of its audits by formal reports to the Congress and by reports to local commanders or the Commander, MSTS. The more important findings and recommendations, and corrective actions taken, if any, are described briefly below.

1. In Seattle the Army Transportation Corps was following the practice of using stevedores on a 1-shift rather than a 2-shift basis in loading and discharging cargo. As a result, MSTS incurred unnecessary costs for the increased inport time of controlled vessels.

The GAO brought the matter to the attention of MSTS and Army representatives, following which two-shift stevedore operations were commenced in 1953 at Seattle. It is estimated that the annual savings to MSTS at its command in Seattle will be not less than $500,000.

The GAO subsequently recommended changes in stevedoring practices in San Francisco and Honolulu. Action has not been taken at San Francisco, but at Honolulu the shipper services have instituted two-shift stevedoring.

2. Passenger ships assigned to the San Francisco command spent considerably more time in port than commercial vessels. This condition was taken up with the local commander and passenger schedules were revised. As a result, in-port time was reduced by 1.1 days per voyage per vessel, effecting an estimated savings of $1.4 million per year. This reduction was accomplished without eliminating one of the major causes of delay, that of shifting vessels between berths to load and/or discharge cargo, stores, and passengers.

The GAO pointed out that such shifts are delaying ships in port as much as 1 full day; that each shift consumes about one-half day at a cost of about $3,600; and that, since the Pacific Area Command had 22 passenger vessels assigned to it at June 30, 1954, in-port shifting was an expensive practice to be avoided by every reasonable means. The GAO recommended a joint study by MSTS and the shipper services with the objective of eliminating or reducing in-port shifting.

3. Over a period of 3 years MSTS had reimbursed the commercial operators of Government-owned tankers approximately $330,000 for premiums paid by the operators to private insurance companies for Second Seaman's War Risk Insurance. During the same period claims paid by the underwriters amounted to about $30,000.

The GAO advised MSTS that under title 12 of the Merchant Marine Act, 1936, the Secretary of Commerce may provide war-risk insurance to any department or agency of the United States. Acting upon this advice MSTS now purchases this insurance through the Department of Commerce on a nonpremium basis, reimbursing the Department for any losses arising under the policies issued.

4. In April 1953, the GAO reported to the agency the disposal at sea of deteriorated beverage base for which it could obtain adjustments from the suppliers as provided in the standard 1-year guaranty clause of the contract. The GAO also found indications of improper actions by military personnel in connection with the purchase of the beverage base.

As the result of these findings, MSTS made an investigation and recovered about $17,000 in cash and supplies. Also, remaining stocks of the beverage base were distributed to other commands where it could be used, thus preventing further spoilage, and disciplinary action was taken against certain military personnel.

These audit findings led to further investigation by the Office of Investigations, General Accounting Office, and a report thereon was rendered by that Office in May 1955. A copy of the report was forwarded to the Attorney General for consideration as to whether a fraud had been perpetrated against the United States and whether there is involved a violation of the conflict-of-interest statutes.

In June 1955, representatives of the GAO testified before the Subcommittee on Military Operations of the House Committee on Government Operations, in its hearings on the procurement of the beverage base.

5. The GAO noted that some commercial ship operators had billed MSTS and collected for payroll taxes in excess of that paid or payable on the maximum compensation for which taxes are applicable.

MSTS undertook negotiations with the operators for refund of the excessive reimbursements. More than $100,000 has been refunded and recoveries estimated by the agency to be at least equal to the cash refunds have been made through deductions from current billings of the operators. Also, as a result of this disclosure MSTS has changed its procedures in auditing the billings by operators to insure against such overpayments.

6. In its examination of time-charter settlements the GAO questioned a number of events which appeared to constitute credits to MSTS, but which had not been considered in the settlements. It recommended that MSTS have its own staff perform further audit work on time charters.

As a result, the agency has been making a more intensive examination of charter settlements and revised its procedures to insure more thorough review of contractors' invoices before settlements are made. To date more than $90,000 has been recovered by the agency and many items are still being investigated. In addition, representatives of MSTS have stated that revised procedures, particularly the examination of full-ships logs in lieu of log abstracts, which the GAO had recommended, has effected substantial savings in current settlements.

7. The GAO noted overaccruals of expenses at headquarters which resulted in the overstatement of expenses for fiscal year 1954 and prior years.

Following discussions with the MSTS Comptroller, a study was made which revealed substantial overstatements in accrued liabilities. As a consequence, these liabilities were reduced by about $20 million. Since these funds represent excess profits in prior years, the GAO believes they should be considered for return to the Treasury.

Findings and recommendations—Action pending

1. Review of space utilization on MSTS-controlled cargo vessels for fiscal year 1953 revealed significant amounts of unused space. An examination of outbound sailings from the Atlantic Area Command for 2 representative months, constituting about 5 percent of the total outbound cargo carried by controlled vessels

of that command for fiscal year 1953, disclosed unused cargo space equivalent to that of cargo shipped on berth lines during the same 2 months at a cost in excess of $1 million. Projected on an annual basis, the potential savings are of considerable magnitude. It was further noted that in the Pacific Area Command approximately $2 million could have been saved, based on 1953 operations, if all cargo space on passenger vessels had been utilized. While this ideal is not attainable, it is indicative of potentially large savings.

The GAO stressed that the basic problem of underloading stems from the division of responsibilities between MSTS and the shipper services, regulations of the latter, and the system of cargo allocation between berth lines and MSTS ships. Both MSTS and the Department of the Army agree that space is not fully utilized. They state that they are continually striving toward better utilization, but point to the many problems involved.

2. The GAO pointed out the effects of reduced passenger operations on the two commands at San Francisco and Seattle and recommended that consideration be given to a joint study by MSTS and the shipper services to determine the possibility of consolidating, in whole or in part, their operations, facilities, and organizations.

MSTS agreed that a joint study should be made to disclose and eliminate duplications.

3. At the Atlantic Command during fiscal year 1953 approximately $477,000 of the total paid for charter hire and per diem for time-chartered and General Agency Agreement vessels represented periods when these vessels were idle. A variety of causes were found for the idleness, including failure to load on weekends, late arrivals of cargoes, and lack of docking facilities. The GAO tests indicated that most of these delays were the responsibility of the shipper services and that many of them could have been avoided. It recommended that measures be taken to minimize the delays.

The Department of the Army has stated that as a shipper service it is constantly examining the causes of delays and idle time, and that it changes schedules wherever possible in order to help minimize the problem.

4. The GAO found that during 1953 a total of 326 pets were shipped from the east coast of the United States aboard MSTS cargo vessels. Policy appears to prohibit stowing other cargo in the same hold with pets. The hold space occupied by the pets could have held about 8,000 measurement tons of military cargo. The cost to the Government for transportation of these pets averaged about $437 each. They could have been shipped for much less by commercial transportation. The GAO recommended that MSTS and the Department of the Army make an examination to determine the most economical and practical method of shipment.

The Army has stated that it is studying the shipment of pets to ascertain the average cost to the Government.

The Committee on Government Operations recently submitted a separate report to the Senate on fees for special Government services.

It is suggested that, in connection with its study, the Department of the Army should give consideration as to whether or not this service should be paid for by the beneficiaries of such service rather than by the Government, or at least that part of the cost should be so assessed.

5. Instructions issued by MSTS Headquarters prohibit civilian international mail and any other type of mail not admitted into the Military Postal System from being carried aboard MSTS ships after April 1953. On the basis of 1953 activity the GAO estimated that this change resulted in additional costs to the Government of about $300,000 per year for carrying mail that could have been carried on ships assigned to the MSTS Pacific Area Command. Additional costs in greater or lesser amounts were incurred at other commands.

The GAO reported this situation to focus attention of the Congress on the question of whether or not Government facilities intended for certain necessary Government activities should be used to perform collateral or secondary functions, which would otherwise be handled by private industry, when such use would result in economies to the Government.

6. Some MSTS cargo vessels are inactivated according to Navy standards and others according to Maritime Administration standards. The Navy method is more extensive and costly than the Maritime method. Since these ships are all maintained in reserve for the same purpose and for all practical purposes are merchant vessels, it seemed inconsistent that they should be preserved by different methods, especially when there is a considerable difference in costs.

The GAO suggested that the Departments of the Navy and Commerce work out a plan for standardizing the methods of inactivation for merchant type vessels, regardless of whether they are under the jurisdiction of MSTS, the Navy fleet, or the Maritime Administration.

7. On claims handled by Headquarters, MSTS, the GAO found that an unreasonable length of time is taken to process claims for loss or damage to cargo shipped by the military departments under Government bills of lading. At June 30, 1954, there were over 1,000 unsettled claims involving about $500,000. The principal factors responsible for the situation are (1) disagreement between the Army and MSTS regarding responsibility for settlement, (2) delay by military department in forwarding cargo outturn reports and reports of survey to MSTS, and (3) erroneous reporting of cargo losses and damages by the military departments. The effect of this condition has been to delay unduly the collection of monies due to the Government and to risk failure to collect on what might be legitimate claims. Since the situation applied to all three military services, the GAO in July 1955 directed a report to the Secretary of Defense for appropriate action.

Other recommendations

Certain other recommendations by the GAO are worthy of note. Action thereon by MSTS or the shipper services is pending. Some of the most significant of these recommendations are—

(*a*) Cargo should not be shipped on berth lines while Government-owned-or-chartered vessels under MSTS control are sailing underloaded or are idle.

(*b*) With respect to all contract-tanker operators, MSTS should (1) strengthen controls of subsistence costs, (2) increase contractors' use of naval supply depots, (3) consider the merits of painting tankers by commercial standards, and (4) reduce in-port delays.

(*c*) More economical means of servicing Johnson Island (Pacific) and the Caribbean area should be explored.

(*d*) Shipments under shipping contract should be in largest possible quantities in order to secure advantage of sliding-scale rates.

(*e*) MSTS should determine whether payments for time chartered vessels have exceeded the ceiling provided in the Merchant Ship Sales Act, and, if so, take action to recover excessive payments.

(*f*) Civilian employees and Army Post Exchange Service should be charged full cost of shipping vehicles.

(*g*) Duplication of cargo-loading supervision by MSTS and shipper services should be eliminated.

(*h*) MSTS should study its maintenance and repair activities at New York to determine whether the staff is larger than necessary.

(*i*) Proper storage, handling, preservation, and inspection methods for MSTS material should be followed at the naval supply center, Oakland.

(*j*) Procedures for more practical and less costly accounting for shipboard inventories should be established.

Hoover Commission recommendations

The Commission on Organization of the Executive Branch of the Government, in its report on transportation submitted to the Congress on April 4, 1955, cited with approval the report of its task force which, in turn, relied to some extent on studies and findings of the General Accounting Office dealing with the activities of MSTS.

In connection with its recommendations concerning MSTS, the Commission pointed out that, although the Congress is endeavoring to establish a merchant fleet which will serve both our commerce and constitute a reserve for the military services in war, the Military Sea Transport freighters are performing services which could be performed by private carriers, and that the Department of Defense "in enlarging the Military Sea Transport Service and in carrying large amounts of commercial-type cargo, is competing unnecessarily with this subsidized fleet and in the end endangering the congressional endeavor to build up our merchant marine" (p. 36).

The Commission also stated that its task force had reported that—

> * * * accurate cost comparisons between the Military Sea Transport-owned nucleus fleet and the privately operated United States-flag ships are impossible. The real cost of utilization of oceangoing nucleus fleet freight ships would be increased greatly if several important unrecorded items of cost which are not out-of-pocket costs to Military Sea Transport Service, but which are real costs to the taxpayer, were allocated to Military Sea Transport Service operating costs in addition to costs presently recorded. Examples of these unrecorded items are (1) military pay and allowances, (2) vessel depreciation, (3) interest, (4) Panama Canal tolls, (5) free use of numerous Government facilities, and (6) insurance costs. The General Accounting Office has estimated that the first 4 of the foregoing items would have added $101 million to the $700 million in Military Sea Transport Service operating expenses recorded in 1953. No evidence has

come to the task force's attention which would indicate that Government operation is more economical than private operation if all elements of cost are considered (p. 36).

The Commission, in its recommendation (No. 6, p. 37) endorsed these findings of its task force, and concluded that—

the amount of money that would be returned to Government through employment of subsidized vessels is difficult to estimate, but the General Accounting Office notes that this is an important element to consider in comparing actual costs to the Treasury of Government versus private operation.

The Commission submitted the following recommendations relative to Military Sea Transport Service:

(*a*) That Department of Defense directives be so clarified that Government-owned ships will not be operated when private facilities can render adequate service at reasonable rates, except for clearly established military security reasons.

(*b*) That the shipping agencies and the Military Sea Transport Service apportion more cargo to private carriers and reduce the amount of arbitrarily labeled "nonsusceptible" freight.

(*c*) That Military Sea Transport Service and the shipping services jointly scrutinize the entire procedure which now controls the determination by Military Sea Transport Service of advance space requirements. Necessary changes should be made to provide ship operators with reasonable "lead time" and firmer space commitments.

(*d*) That the shipper services should reexamine their regulations imposing restrictions on port time for cargo.

(*e*) That port congestion should be controlled at warehouse and factory, rather than by port time limitations. (Recommendation No. 7, p. 39; see also pp. 209–218 of Hoover Commission subcommittee report.)

Transportation of privately owned automobiles

The Senate Committee on Interstate and Foreign Commerce reported a bill (S. 2286) on July 27, 1955, to authorize the utilization of privately owned shipping services in connection with the transportation of privately owned motor vehicles of certain personnel of the Department of Defense. The bill passed the Senate on January 12, 1956.

In its report to the Senate (S. Rept. No. 1163, 84th Cong.) the committee stated that—

Transportation of private passenger automobiles for service personnel is one of the major sources of tonnage for Military Sea Transportation vessels. The MSTS report for fiscal year 1954 shows a total of 71,667 such vehicles transported—35,076 for Army personnel, 23,072 for Air Force, 12,867 for Navy, and 652 for Marine Corps personnel. Such transportation is authorized by congressional act of October 1949 (63 Stat. 1020; 10 U. S. C. 825). The law allows private automobiles, belonging to service personnel traveling under permanent change-of-duty orders, to be transported on Government-owned vessels. As interpreted by the Department of Defense, this is taken to mean that they can be transported on Government vessels only.

This has a double-barreled effect upon the competitive situation existing between MSTS and the privately owned shipping lines. It precludes shipment on commercial vessels of any of this vast number of automobiles, each one representing 15 measurement tons, or 1½ weight tons. Further, because these automobiles are of such low density, a vessel carrying a number of them must also take on a substantial amount of weight cargo in the lower hold, to assure stability.

Thus the restriction of transportation of such privately owned automobiles to Government-owned vessels requires MSTS to carry a great deal of both low density and other general cargoes that could otherwise be carried on privately owned vessels.

With so many automobiles to be transported, entire ships must be devoted to this traffic. Thus, in the absence of such authority as S. 2286 would provide, the MSTS fleet can be expected to continue at its present expanded size, thus penalizing the operations of both the Government-owned and privately owned merchant fleets.

CORPS OF ENGINEERS (CIVIL FUNCTIONS)

The Corps of Engineers, a service of the Department of the Army, has both civil and military functions. The civil functions encompass a wide variety of responsibilities. Among the more important are responsibility for the development, design, construction, operation, and maintenance of river, harbor, and flood-control improvements in the United States and its possessions; the administration of laws relating to the protection and preservation of navigable waters; developing and recommending projects for Federal cooperation in shore-protection and beach-erosion measures; development and construction of shore protection and erosion prevention projects affecting Federal property; and collecting, compiling, and publishing commercial statistics pertaining to rivers, harbors, and port facilities. A comparatively recent function has been the design, construction, and operation and maintenance of multiple-purpose dams that, aside from providing flood-control and navigation benefits, provide water for irrigation and power development. This is done in conjunction with other Federal agencies.

These activities are financed primarily from appropriations by the Congress, which amounted to about $424,280,000 for the fiscal year ended June 30, 1954. During the fiscal year 1954, the corps collected $3,221,506 from its various civil function revenue-producing activities. Of the amount collected, $988,000 was distributed to various States and their political subdivisions; the balance was returned to the United States Treasury as miscellaneous receipts, as required by law.

The civil functions mission of the corps is carried out by the Chief of Engineers under the direction of the Secretary of the Army. The Office of the Chief of Engineers is located in Washington, D. C. There are 10 division offices and 39 district offices throughout the United States and Alaska that perform civil functions. The corps has, in addition, special boards and commissions established by acts of Congress. As of January 1, 1956, the corps had 24,228 employees assigned to civil functions, compared with 26,924 on June 30, 1953.

General Accounting Office audits

Beginning with fiscal year 1953, the General Accounting Office has audited the civil functions of the Portland district office of the Corps of Engineers, which include the operation and maintenance of the Bonneville Dam and powerplant. These audits were made in connection with the audit of the Columbia River power system, which is comprised of the Bonneville Power Administration and certain power facilities of the Corps of Engineers, Department of the Army, and Bureau of Reclamation, Department of the Interior. The General Accounting Office has prepared reports on the Columbia River power system for fiscal years 1953, 1954, and 1955. Comments relative to these reports are included under the section on the Bonneville Power Administration.

The entire civil functions of the Corps of Engineers were placed under comprehensive audit beginning with fiscal year 1954. Prior thereto, payrolls had been audited at the sites and the remainder of the expenditures were audited on a centralized basis. The military functions of the Corps of Engineers have not been placed under comprehensive audit, and these transactions are audited by the General Accounting Office centrally at Indianapolis.

The General Accounting Office audit for fiscal year 1954 included work at the Office of the Chief of Engineers in Washington, D. C., 9 division offices, 33 district offices, 3 boards or commissions, and the waterways experiment station at Vicksburg, Miss.

As a result of its work for fiscal year 1954, GAO submitted to the Chief of Engineers nine reports on findings at the Office of the Chief of Engineers and certain divisions of the corps, and an overall accounting report on the accounting deficiencies at various offices of the Corps of Engineers.

The Chief of Engineers has been very receptive to the recommendations of the GAO and has already taken action in numerous instances to correct the deficiencies reported, as indicated elsewhere in this report (p. 25).

Some examples of audit findings and recommendations reported by the GAO and adopted by the Corps of Engineers follow.

General Accounting Office recommendations adopted

Synchromatic accounting machine system.—A synchromatic accounting machine system was installed by the corps in 1952 at a cost of $767,000 to prepare reports showing the status of funds by appropriations for each district office and the corps. After a year of testing, the corps was unable to prepare within a reasonable length of time for use by the district offices and other management levels an accurate summary of civil works funds. After noting the high cost and ineffectiveness of the system, the GAO recommended its abandonment. The corps adopted this recommendation and abandoned the system effective May 12, 1955.

Excessive construction of dormitory facilities.—The Government has sustained heavy costs in the operation and maintenance of 8 dormitories and a messhall which the corps constructed at Pickstown, S. Dak., for contractors' employees and 3 dormitories constructed for Government employees.

In 1952 the residents of the contractors' dormitories were transferred to the Government employees' dormitories which had not been used from the time they were constructed in 1946. Operation of the Government employees' dormitories has continued under concessioner agreements and the contractors' dormitories have remained vacant. The Government's cost under the concessioner agreements greatly exceed the revenues.

Prior to beginning construction of the Oahe Dam and Reservoir, the corps decided to provide housing for Government and contractor employees in the city of Pierre, S. Dak., and at the Pierre Airfield, a former Army airbase. Housing units were constructed at the airfield. In addition, 2 barracks were converted into 22-room dormitories for contractor's personnel at a cost estimated at $100,000. These dormitories have not been used since they were constructed in 1950.

The GAO recommended that the corps reconsider its policy of furnishing dormitories and other housing facilities to contractor's employees. The GAO believed that the Government should not provide dormitories for contractor's employees when the construction site is reasonably close to an existing city. It was recommended also that the corps dispose of facilities not used or needed, so that further losses could be avoided and as much of the construction costs as possible could be recovered.

The Corps of Engineers has concurred in these recommendations and has informed the GAO that it is now the general policy of the Corps of Engineers not to provide housing at civil works installations for employees except for operating personnel at isolated locations and as the need is demonstrated. Housing facilities for contractors' employees normally will not be provided. Dormitories at the Oahe project were disposed of on July 28, 1955, and disposal of the excess facilities at the Fort Randall project is currently being considered.

Excessive cost of administration of construction program in Vicksburg district.—The cost of administration of the construction program in the Vicksburg district has been excessive because of a decline in construction workload and failure of the district to effect a corresponding reduction in the staffing of the Construction Division. There was no indication of a substantial future workload of heavy construction. The GAO recommended (1) that the Construction Division be abolished or that the number of personnel be reduced to bring staffing in line with the current workload, and (2) that for single larger construction jobs, which may occur from time to time, a resident engineer be established who would report directly to the district engineer. The Corps of Engineers has concurred in these recommendations and has informed the GAO that the personnel strength in the Construction Division was reduced from 22 as of July 1, 1954, to 12.

Comments of the Department of Defense

The Comptroller of the Department of Defense advised the chairman of the committee, on February 6, 1956, that the Department had reviewed a draft of the report and believed that it represented a factual description of the findings of the Comptroller General and the action taken as a result thereof, concluding that—

> We consider the constructive approach taken by the Comptroller General in his audits of the operations of the Defense Department to be a valuable adjunct to our own control mechanisms. Careful attention is accorded each of the reports received and appropriate action is taken to correct deficiencies.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

The Department of Health, Education, and Welfare was created by Reorganization Plan No. 1 of 1953, which abolished the Federal Security Agency, created by Reorganization Plan No. 1 of 1939, and transferred all functions of the Federal Security Administrator to the Secretary of Health, Education, and Welfare, and all components of the Agency to the Department.

The Department was established for the purpose of improving the administration of those agencies of the Government, the major responsibilities of which are to promote the general welfare in the fields of health, education, and social security.

General Accounting Office audits

The Department of Health, Education, and Welfare was advised on May 6, 1954, by the Comptroller General that, consistent with his objectives of extending the comprehensive audit to all major activities of the Government as rapidly as practicable, the Department had been assigned for audit on a comprehensive basis. He also advised that the audit would involve at the outset preliminary surveys of the com-

ponent agencies in the Department and studies of the manner in which they carry out their activities, and until the survey phase of the audit was completed, the detailed examination of expenditure and collection vouchers would be continued centrally in the General Accounting Office, but that payrolls would be audited at the site.

In addition to the examination of expenditure and collection vouchers and the audit of payrolls, the audit work has included the examination of (1) reports filed under section 1311 of the Supplemental Appropriation Act, 1955, (2) adherence to appropriation limitations, and (3) adherence to regulations and discharge of financial reporting responsibilities to the Treasury Department and the Bureau of the Budget.

In connection with the examination of the Department's report as of June 30, 1954, filed under section 1311, the General Accounting Office brought to the attention of the Comptroller of the Department on April 21, 1955, certain requirements which if:

> * * * made a part of the Department's instructions and adhered to by the accounting offices would overcome the deficiencies noted in the course of the examination and would save considerable time on the part of the Department's personnel and [the General Accounting Office] audit staff in connection with future examinations of the Department's reports under section 1311. It would also serve to emphasize the necessity of preparing and retaining working papers in support of determinations that will be audited on the site as a part of the audit work in connection with other matters.

In reply, the Comptroller of the Department stated that:

> We appreciate having your report of this examination and hope that you and members of your staff will continue to bring such matters to our attention both formally and informally. Your doing so will assist us not only in complying with the requirements of the law but also in the development of better and more uniform accounting procedures and practices.

The General Accounting Office also urged the Department to complete the decentralization of records, in those constituents where partial decentralization now exists, to overcome, in part, the prevalence of multiple records.

Internal auditing

The Department's Office of Comptroller was established in the Office of the Secretary, effective January 1, 1955. A Division of Internal Audit is being formed to operate on a departmentwide basis. The only constituent having an internal audit staff is the Public Health Service, and their audit responsibilities are restricted to the field accounting offices. Accordingly, the General Accounting Office reported that accounting and internal auditing has not developed to the extent or as rapidly as would be desired and as was intended by the Accounting and Auditing Act of 1950.

The Division of Grant-in-Aid Audits, which is a part of the Office of Field Administration in the Office of the Secretary, has a group of auditors with responsibility for auditing the Federal participation in grant-in-aid programs administered by agencies of the States or political subdivisions. The Division of Research Grant, National Institutes of Health, Public Health Service, has a similar group to audit grants for research, training, and disease control to others than agencies of the States or political subdivisions.

In 1952 the staff of the Committee on Government Operations made a study of the programs and activities administered by the Bureau of

Public Assistance, Federal Security Agency, which was then responsible for the grants-in-aid programs of the Agency. A staff report to the chairman on this study disclosed the fact that losses which were estimated as high as $50 million a year were being incurred due to inefficiency and incompetence in the conduct of eligibility audits, and resulted in public hearings before the Permanent Subcommittee on Investigations on February 3, 1953. These hearings confirmed the staff findings, that serious defects existed in the types of audits made by the FSA, and that social-service workers had been assigned the responsibility for auditing the public-assistance rolls. The hearings further developed that there were two types of audits being made: (1) fiscal audits, conducted by the accountants of the Grants-in-Aid Section, and (2) eligibility audits made by the Administrative Review Section of the Bureau of Public Assistance.

The subcommittee reported that—

> At the time of the hearings the subcommittee made several recommendations to the Federal Security Agency to effect the saving of millions of dollars a year by use of efficient methods in conducting audits. It was further suggested that the Federal Security Agency should utilize the services of its accountants and auditors to conduct proper audits instead of relying on social-service workers with no qualifications to do so-called audit reviews. It was estimated that about 50 qualified accountants assigned to this work throughout the United States would make possible savings of several millions of dollars each year and, at the same time, bring about better administration of the Federal-assistance programs. The subcommittee advised that the expenditure of a modest amount of money for the employment of competent auditors would be one of the best investments the Federal Security Agency could make.

In a letter to the chairman of the committee, under date of January 31, 1956, the Secretary of the Department of Health, Education, and Welfare reported that the new Division of Internal Audit is intended to provide department-wide leadership in the establishment and conduct of good internal auditing programs, but that it is expected to conduct regular audits only with respect to those organizational units of the Department which are not large enough to warrant having internal audit staffs of their own. Also the Secretary points out that it should be noted that the statement as to the scope of responsibilities of the internal audit staff of the Public Health Service is too narrow. Their responsibilities include not only the audit of field accounting offices, but also the audit of headquarters accounting offices and of activities relating to financial transactions at nonaccounting field installation points.

In regard to payments to old-age and survivors insurance beneficiaries, the Secretary informed the committee that the Bureau of Old-Age and Survivors Insurance has a system of checks and balances designed to insure continuing accuracy in the adjudication and payment processes. Also, that the Division of Claims Control conducts regular independent on-the-spot audits of claims cases and post-adjudicative actions in each area office by means of statistical random sampling and selective case methods. This audit is designed, according to the Secretary, to indicate the completeness and accuracy of the claims determinations, adherence to policies and procedures, and uniformity and consistency among the six area offices in carrying out their review and postpayment responsibilities.

In addition to the audit of payments to beneficiaries, the Secretary reports that the Bureau of Old-Age and Survivors Insurance has,

since its inception, placed great stress upon the necessity for post-checking its operations and operating results. To assure this end, it has a built-in system within each division, coordinated at the Director's level, to conduct postsurvey audits and inspections. This system also provides for the postaudit of administrative funds as needed and it is contemplated that this latter operation will be extended within the Bureau's operations.

In his report to the chairman of the committee, the Secretary also indicated certain recent changes had been made in the audit structure of the Department, on which he commented as follows:

> The Department has succeeded in bringing into being its new Division of Internal Audit. We have a Director of Internal Audit and three other professional auditors now at work. This is an important step in strengthening the financial management of the Department.
>
> A second change which has occurred is a shift in organization which affects the Office of Comptroller, though not the function of financial management in any great degree. A year ago the functions of the Director of Administration were divided into fiscal and nonfiscal management and an Office of Comptroller was established to handle the fiscal management program, while a Director of Administration handled the nonfiscal management functions. As a result of experience both in this Department and the Treasury Department, I concluded the fiscal and nonfiscal management functions were so interrelated as to warrant unified leadership. On December 1, 1955, on the occasion when the Director of Administration left the Department to enter private business, it was decided to consolidate the Office of Comptroller and the Office of Administration into a single Office of Administration with an Office of Financial Management and the Division of Internal Audit as major staff arms of the Office of Administration. The former Comptroller was made Director of Administration.
>
> This information brings up to date the material in the extracts which you transmitted to me. I can assure you that we are firmly committed to move forward steadily toward the goal of a sound and well staffed internal audit structure within the Department.

DEPARTMENT OF THE INTERIOR

The Department of the Interior was created by the act of March 3, 1849 (5 U. S. C. 481). Its functions are concerned principally with the management, conservation, and development of the natural resources of the United States. The jurisdiction of the Department extends over the continental United States, its Territories and possessions, and various territories held in trust by the United States. Its activities include the custody and management of some 750 million acres of land; the conservation and development of mineral, metal, and timber resources; the promotion of mine safety; the protection of fish and wildlife; the administration of the Nation's Federal range and its recreation, scenic, and historic areas; the reclamation of arid lands of Western United States; and the management of Federal hydroelectric systems. The Department of the Interior is also responsible for the welfare of nearly 3 million persons in the Territories and island possessions of the United States and in the Trust Territory of the Pacific Islands. It has the guardianship of about 400,000 Indians in the continental United States and 34,000 Indians, Eskimos, and Aleuts in Alaska.

The activities of the Department of the Interior are financed primarily from annual and permanent appropriations made by the Congress. Funds appropriated to the Department for the fiscal year ended June 30, 1954, were in excess of $500 million.

The Department of the Interior is composed of the following offices, departmental units, and bureaus:

Office of the Secretary and other departmental units
Bureau of Mines
Defense Minerals Exploration Administration
Geological Survey
Bureau of Indian Affairs
Bureau of Land Management
Fish and Wildlife Service
National Park Service
Bureau of Reclamation
Bonneville Power Administration
Southeastern Power Administration
Southwestern Power Administration
Office of Territories

At the request of the Secretary of the Interior, a preliminary review of the Bureau of Reclamation's Central Valley project was undertaken by the General Accounting Office during the fiscal year 1950. The preliminary review was subsequently enlarged to a comprehensive audit basis for the fiscal year 1951 and gradually extended to other regional offices of the Bureau. Consistent with its established objective of extending the comprehensive audit program as rapidly as availability of its staff would permit, the General Accounting Office assigned other constituent organizational units within the Department for comprehensive audit. Effective with the fiscal year 1955, the entire Department had been placed on a comprehensive audit basis.

During a recent hearing an official of the General Accounting Office commended the Secretary of the Interior and his fiscal officers for their cooperation in extending the comprehensive audit throughout the Department.

Internal auditing in the organizational entities of the Department has shown marked improvement since inception of the comprehensive audits. However, this important aid to effective management leaves much to be desired in several of the bureaus and units. Bureauwise, internal auditing performance ranges from inadequacy to commendable coverage of proven value to management.

The General Accounting Office audit reports indicate that the bureaus and other organizational units in the Department of the Interior have been cooperative and have in general conducted their programs or activities in conformity with law. However, as shown in the following analyses, the General Accounting Office has made numerous suggestions to the Department for improvement in financial administration.

Comments of the Department of the Interior

The Administrative Assistant Secretary of the Department of the Interior, in a letter to the chairman of this committee, dated February 3, 1956, took exception to some of the recommendations of the General Accounting Office in the following analyses of the various departmental operations. The comments are related to 2 main elements of the General Accounting Office audits, (1) recommendations as to the proper overall organization of 3 Bureaus of the Department, and (2) that the reports are directed to reporting in a critical vein without giving any recognition to efficient operations. While it is admitted

that the Accounting Systems Division of the General Accounting Office has been of valuable assistance, the Department maintains that it has taken the initiative in the program.

The letter from the Department follows:

DEPARTMENT OF THE INTERIOR,
OFFICE OF THE SECRETARY,
February 3, 1956.

Hon. JOHN L. MCCLELLAN,
Chairman, Committee on Government Operations,
United States Senate, Washington 25, D. C.

MY DEAR SENATOR MCCLELLAN: We appreciate the opportunity to review and offer comments on the proposed report of the Committee on Government Operations covering audit reports of the Comptroller General which concern the Department of the Interior. We have indicated corrections which we believe should be made.

While we believe the material contained in the report is factual, insofar as it is based on information contained in the audit reports, we feel that the Committee on Government Operations should be given some general background material pertinent to the subject matter.

The Department of the Interior was one of the first, if not the first, major Government Department that recognized the importance of independent comprehensive audits and the benefits that could accrue from a factual presentation of this type of audit. As a matter of fact, we solicited the audits which have been undertaken by the General Accounting Office. We felt that an independent appraisal of our financial management activities would be very beneficial to the Department in carrying out its programs and activities more effectively.

We have experienced a great deal of disappointment in the results thus far.

We believe that many of the recommendations of the auditors pertain to fields of administration outside the competence of the auditors to evaluate. Many of the recommendations deal with changing organization alinement of our bureaus and changing operating policies of the Department which have been developed from experience over a long period of time and which we believe are sound. This belief is based on our close association with the problems, the feelings of the Congress on these matters, and the overall benefits accruing to the public by carrying out these policies. Without intending to discredit the auditors, since we believe that the majority of them are competent, we feel that our people who are responsible for making policy and who have years of background experience in this field, should not be expected to change sound and proven policies, procedures, and organization alinement because an auditor feels that it should be done some other way.

There have been matters called to our attention in the audit reports that the Department has felt should be corrected. On the other hand, the reports have included criticisms which the Department could not accept as a true representation of the facts. This has tended to create an attitude of rejection by some of the operating officials with respect to recommendations that the Department had considered to be sound observations.

Without going into detail, we should like to comment on two main elements of the GAO audit approach which we feel are outside the normal purview of an audit or are misleading because of the manner in which they are presented.

First, recommendations are made in the report as to the proper overall organization of three Bureaus of the Department—the Bureau of Land Management, the Bureau of Mines, and the Bureau of Reclamation. It is our opinion that such recommendations are outside the scope of a financial audit and moreover, that an accountant is not ordinarily qualified—either through professional training or through broad administrative experience—to determine the scope and pattern of a complex organization.

The general pattern of organization of bureaus of this Department is based on three levels: headquarters located at Washington, which provides overall direction and administration of programs; regional offices located at strategic points throughout the country for direction of field programs; and operating units located where individual operations and activities are actually performed.

The recommendations on organization included in the report for the three Bureaus referred to reflect the inconsistencies of approach by auditors of the General Accounting Office. In the case of the Bureau of Reclamation the auditors recommended that the 7 regional offices be reduced to 3 or 4 regions. It is

claimed this would result in an adequate supervisory and administrative execution of the reclamation program and reduce administrative overhead. For the Bureau of Mines it was recommended that the regional office organization be eliminated entirely. For the Bureau of Land Management it was recommended that the headquarters be located in a suitable western city and that the regional offices be eliminated.

This Department rejected these recommendations inasmuch as they were inconsistent with the needs of sound and efficient management. In establishing the number of regional offices for a bureau, consideration must be given to factors such as size of the area to be managed, transportation, the magnitude and diversity of programs to be administered, delegations of authority to field operating personnel, and the insurance of uniform instructions for the administration of activities by operating personnel. We are of the opinion that total elimination of regional offices would tend to require centralization of management at headquarters resulting in less efficient service to meet the public need. With respect to the transfer of headquarters to the field, the Department finds no merit in such a proposal.

This Department is not unmindful of the need for and gains derived from efficient organization. In 1953 the Secretary enlisted the aid of experts in the fields of business and management, related to activities of the bureaus of the Department, to review the organization of the bureaus. After comprehensive studies the survey teams submitted recommendations on changes in organization which would increase the efficiency of management and the performance of operations. In general, these recommendations have been adopted by the Department.

Secondly, we have found that the audit approach has been directed to reporting in a critical vein without giving any recognition to efficient operations. This leaves the impression that all operations are deficient and leaves the Department without advice on good practices that could be used as examples for others to follow. We are not looking for praise in the Department, neither do we want to be pictured as being entirely deficient in the conduct of our activities.

A review of the proposed report leaves the impression that the General Accounting Office is solely responsible for financial management improvement programs in the Department. While we readily admit that the Accounting Systems Division of the General Accounting Office has been of valuable assistance to the Department, we must state that the Department took the initiative in this program.

As an aid to management and prior to the comprehensive audit of Interior by the General Accounting Office, the Department instituted an internal audit program. Our objective in establishing this program was to add a further step in the improvement of financial administration in the Department. In this connection, we also instituted an extensive accounting systems imrovement program. This program was and is conducted jointly with the Accounting Systems Division of the General Accounting Office and has a twofold purpose: first, to safeguard and account properly for the funds and other assets of the Department and, second, to provide administrative and operating officials with accurate financial information to enable them to better carry out their responsibilities. It is a matter of record that the Interior Department has been in the forefront in the Federal Government in this activity—with most of our bureaus having accounting systems approved by the Comptroller General. The Department has also made great strides in instituting improvement programs in property management, personnel, organization and management, and in other areas.

Please be assured that our comments are presented solely with the objective of eliminating any possible conclusion on the part of the committee, or those who may have access to the report, that Interior's operations are conducted inefficiently. We are still of the opnion that real value can be obtained from the comprehensive audit program of the General Accounting Office and we propose to cooperate fully with the Comptroller General in this work. We also recognize the necessity for effective financial management in the Federal Government and assure you that Interior will not lessen its efforts to accomplish this objective.

Sincerely yours,

D. OTIS BEASLEY,
Administrative Assistant Secretary.

The Comptroller General submitted the following explanation of the points raised in the letter from the Department of the Interior in order that the objectives of the General Accounting Office audits may be made clear:

GENERAL ACCOUNTING OFFICE,
COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D. C., February 7, 1956.

Hon. JOHN L. MCCLELLAN,
Committee on Government Operations,
United States Senate.

DEAR MR. CHAIRMAN: Reference is made to letter dated February 3, 1956, from the Administrative Assistant Secretary of the Department of the Interior to you commenting on material relating to the various bureaus of the Department proposed for inclusion in a report of your committee to the Senate on review of audit reports of the Comptroller General.

The development and preparation of reports on audit findings is an integral part of the comprehensive audit work in fulfilling our responsibility to the Congress. The reports are not considered as an end in themselves but as a medium by which information is transmitted and recommendations are made for improvement or corrective action. Not all the recommendations are accepted by the executive departments and agencies. However, the Department of the Interior has adopted many of the recommendations contained in our reports, and subsequent action in other cases has coincided with other of our recommendations.

We are not unmindful that our comments and recommendations on organization in the three bureaus mentioned in the letter conflicted with the general departmental policy on organization of its bureaus. Our reviews of the organization structure of the bureaus in the Department had been initiated before the creation of survey teams by the Secretary of the Interior for the purpose of dealing with these matters, and the fact that these survey teams also recommended changes in the organizations would tend to confirm the observations that changes were needed.

Because audit findings are intended to be constructive evaluations, one of the more difficult problems of our Office is to present findings in a manner that will avoid an unwarranted inference by readers that all operations are conducted inefficiently. Certainly no such inference is warranted in the case of the Department of the Interior, and we agree that significant improvements in financial management and in the conduct of its activities have been made there. We do not think that the comments in the proposed report detract from this accomplishment.

We appreciate the opportunity to comment on the letter submitted to you by the Administrative Assistant Secretary.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

BUREAU OF MINES

The Bureau of Mines was established in the Department of the Interior on July 1, 1910, by the act of May 16, 1910 (30 U. S. C. 1), to conduct programs designed to promote the conservation and development of mineral resources and to promote safety and healthful working conditions in the mineral industries. The Bureau's activities are financed primarily from appropriations made by the Congress, from proceeds of helium operations, and from funds advanced by other Government agencies, which amounted to $28,800,000, $3,000,000, and $6,500,000, respectively, for the fiscal year ended June 30, 1954.

The Bureau is managed by a Director, who is appointed by the President by and with the advice and consent of the Senate. Its activities are currently administered through a central organization in Washington, D. C., 5 regional offices, 8 district health and safety offices, and a helium activity with headquarters in Amarillo, Tex. This organizational structure became effective January 2, 1955. As of January 1, 1956, the Bureau had 4,101 employees, compared with 5,005 as of June 30, 1953. The reduction in personnel was caused

primarily as a result of the disposal of the alumina plant at Laramie, Wyo, and by curtailment of operations at the coal-to-oil plant in Louisiana, Mo.

General Accounting Office audits

The Bureau of Mines was assigned for comprehensive audit effective July 1, 1951, pursuant to a request from the Department of the Interior. Since that date the GAO has conducted audits of the Bureau's accounts maintained at the central office in Washington, D. C., and at its regional offices in Juneau, Alaska; Albany, Oreg.; San Francisco, Calif.; Denver, Colo.; Minneapolis, Minn.; Amarillo, Tex.; Knoxville, Tenn.; and Pittsburgh, Pa. Audit work was also performed at selected experimental stations and other field operating units in the continental United States and Alaska.

The General Accounting Office has submitted the following reports to the Congress on the audit of the Bureau of Mines:

Period covered:	*Date submitted*
Fiscal year 1952	Oct. 29, 1953
Fiscal year 1953	June 8, 1954
Fiscal year 1954	May 31, 1955

The General Accounting Office has also submitted numerous audit reports to the Director of the Bureau of Mines covering findings on audits conducted at the Bureaus' regional offices. These include seven audit reports for the fiscal year 1954.

General Accounting Office recommendations to the Bureau of the Budget

Inadequate disclosure of costs of general administration.—In its audit report for fiscal year 1954, the General Accounting Office noted that annual budget estimates submitted by the Bureau of Mines for the fiscal year 1955 and several years prior thereto did not disclose the fact that funds annually appropriated to it by the Congress for general administrative expenses were augmented by a Bureau procedure of charging certain costs of general administration to funds appropriated for program activities.

The General Accounting Office pointed out that, in effect, this procedure nullified congressional control over expenditures for general administrative expenses, and recommended that full disclosure of this method of financing these expenses be made in the Bureau's annual budget justifications. This recommendation was adopted and the budget justification submitted to the Congress for the fiscal year 1956 disclosed the administrative expenses to be charged to program funds.

General Accounting Office recommendations to the agency

Recommendations to the Secretary of the Interior and the Director of the Bureau, contained in the audit reports for fiscal years 1952 through 1954, included the following:

Weaknesses in organization of the Bureau.—It was recommended that the Bureau eliminate its regional office organization and establish a central line and staff organization to eliminate confusion regarding lines of authority and to provide effective direction over all activities; to facilitate application of prescribed policies and conformance to approved programs; to reduce administrative and housekeeping personnel; and to eliminate duplication of recordkeeping and reporting functions. This recommendation was in line with the findings of

the investigative staff of the House Committee on Appropriations, as set forth in House Report 314, 83d Congress. After a survey of the Bureau's organizational structure by a group appointed by the Secretary of the Interior, the Bureau was reorganized and its regional offices, exclusive of helium and health and safety activities, were reduced from 9 to 5, effective January 2, 1955.

Statistical and accounting machine tabulations—It was recommended that the Bureau review the two statistical tabulating systems maintained at College Park, Md., and Pittsburgh, Pa., to determine whether they could be correlated, and the tabulations currently prepared by hand eliminated. The General Accounting Office also recommended that a study be made as to the feasibility of transferring the College Park Service Branch to the department level, thereby making available to the department that Branch's statistical capacity which had been shown to be in excess of the Bureau's needs.

The Bureau abolished the Statistical Service Branch at College Park effective October 18, 1954, eliminating some functions and transferring others to the Health and Safety Division in Washington, D. C. At October 31, 1954, 7 persons were employed in the machine tabulation work compared with 75 at June 30, 1953. This curtailment of functions should result in savings of about $88,000 for fiscal year 1955 and continued annual savings of about $120,000.

Motor vehicles in excess of requirements.—It was recommended that the Bureau review its requirements for motor vehicles to establish full utilization and to determine the number of vehicles which could be declared surplus for disposal or transfer to other regions or other Government agencies.

The Bureau accepted this recommendation and has established a continuing periodical review of its motor vehicular needs. The Bureau reported a reduction of 120 motor vehicles during the year ended June 30, 1954, and estimated annual savings of $25,000 in operating costs.

Cost of collecting statistics.—To provide Congress with adequate budget data on the Bureau's activities in collecting, analyzing, and disseminating statistics on the mineral industries, a costly and time-consuming function, the GAO recommended that the Bureau include in its budget justifications a supplemental schedule and narrative section making full disclosure of the extent, manner, and cost of statistical activities. The Bureau has taken no action on this recommendation.

Improvement in procurement practices and procedures.—The General Accounting Office recommended that the Bureau adopt procedures to reduce procurement costs by reducing the number of small purchases, taking advantage of benefits available from consolidating its purchase requirements, and from the use of imprest funds. The Bureau has adopted the recommendation and has issued instructions to its field offices to consolidate requisitions and use imprest funds for small local purchases wherever feasible.

Publications issued free of charge.—The General Accounting Office recommended the Bureau reexamine the type of publications issued free of charge (250,000 copies during fiscal year 1954), and establish a reasonable charge for publications which primarily benefit limited groups rather than the general public. On April 19, 1955, the Ad-

ministrative Assistant Secretary of the Department of the Interior informed the General Accounting Office that a Board of Manuals and Publications had been established to review all printed material with relation to the need and charges for publications.

Inadequate fees for equipment testing.—The General Accounting Office recommended that the Bureau review its fees for testing and investigating mining equipment and devices submitted by manufacturers, to determine whether the Bureau was being adequately compensated for the cost of the services rendered. Some of the fees have remained unchanged since 1934. The Bureau adopted this recommendation and developed a new schedule of testing fees which was placed in effect during the fiscal year 1955.

Excess cash in helium revolving fund.—The General Accounting Office repeated the recommendation contained in its 1952 and 1953 audit reports that cash in the helium revolving fund in excess of reasonable requirements at the end of each fiscal year be deposited in the Treasury as miscellaneous receipts, in accordance with the requirements of section 3 (c) of the Helium Gas Act, as amended (50 U. S. C. 164c).

The Bureau has stated that, in ordinary circumstances, it would not be necessary to retain as large a cash balance as existed at June 30, 1954 ($2,288,000) and that, when the current expansion activities are completed, it will appraise the cash requirements to determine the amounts which may be returned to the Treasury. The cash balance in the helium fund at June 30, 1955, was about $3,700,000.

Losses of revenue on the sale of helium.—The General Accounting Office recommended that all helium contracts provide that the unit sales price of helium shall be the price stated in the Code of Federal Regulations on the date of delivery. The Government lost about $70,000 in the fiscal year 1954 under contracts with non-Federal users of helium, which prohibited by their terms the increase in price ordered by the President on March 11, 1954. The Bureau has acknowledged this situation but has not indicated agreement with the recommendation.

Administrative and accounting deficiencies.—The General Accounting Office audit reports disclosed various administrative and accounting deficiencies which were brought to the attention of the Director, Bureau of Mines, with corrective recommendations. Some of the more important weaknesses still existing in fiscal year 1954 included:

(*a*) Nonexistence of written physical inventory procedures. As a result, a physical inventory was not taken in some locations.

(*b*) Inventories were taken solely by persons accountable for the property inventoried.

(*c*) Property cards were frequently incomplete and in some areas were nonexistent.

(*d*) Receiving reports were prepared from copies of purchase orders, packing slips, or bills of lading instead of actual counts or measurements of materials and supplies.

(*e*) Weaknesses existed in warehouse and stockroom management. At some stations no individual was responsible for receiving and issuing property and many employees could withdraw supplies.

(*f*) Regional reports covering obligations incurred, expenditures, and fund balances available were inaccurate and unreliable. Reported costs in 1954 were distorted significantly because of the exclusion of $2,345,000 of expenditures made in that year from prior years' funds. These expenditures were recorded properly in allotment and general ledgers but not in cost accounts.

Other administrative or accounting recommendations made by the General Accounting Office related to full utilization of personnel; book value of nonexpendable property in connection with installation and fabrication costs; inadequate rental rates on Government-furnished quarters; review of needs for warehouse space and establishment of control accounts for purchases of materials and supplies at Rolla, Mo.; elimination of duplicate property records; integration of plant-cost systems with general books of accounts; control of and prompt deposit of receipts; and reconciliation of work order ledgers with general ledger accounts.

General Accounting Office audit reports show that certain of the Bureau's methods of accounting have improved considerably since inception of the comprehensive audit, but that some areas of accountability are shown to be in need of further development and improvement for more effective management.

Internal auditing

As of June 30, 1954, the Bureau had one person designated as an internal auditor, who was then occupied with other duties, primarily in assisting in installing and reviewing the operation of the Bureau's new accounting system. As a result, no internal audits were made at any of the regional offices in the fiscal year 1954. The workload is too great for one person to effectively audit accounts maintained at the regional and central offices during the year.

The responsibility of internal auditors should include a continuing evaluation of the accounting organization and system as well as other management controls, to provide adequate assurance that financial management is being carried on effectively. Existing deficiencies in accounting, procurement, and property management should have been brought to the attention of personnel responsible for its management. The General Accounting Office recommended in each of its reports for the fiscal years 1952 through 1954 that the Director establish a strong internal audit program and organization designed to effectively cover all of the Bureau's regional offices.

DEFENSE MINERALS EXPLORATION ADMINISTRATION

The Defense Minerals Exploration Administration, originally known as Defense Minerals Administration, was established by the Secretary of the Interior on December 4, 1950, under authority of the Defense Production Act of 1950 (64 Stat. 798) and Executive Order 10161 (15 F. R. 6105).

The function of DMEA is to expand the production and supply of critical and strategic minerals and metals by encouraging exploration and related development in the United States and its Territorial and island possessions, through participation in the cost thereof. Since June 30, 1952, these activities have been financed by funds borrowed from the Treasury under authority of section 304 (b) of the Defense

Production Act of 1950, as amended. As of June 30, 1954, the Treasury had advanced $15 million on DMEA interest-bearing notes. In addition, appropriations of about $1,300,000 were made by the Congress to finance DMEA administrative expenses for the fiscal years 1951–52.

Management of DMEA is vested in an Administrator, under the supervision of the Department's Assistant Secretary for Mineral Resources. DMEA has a headquarters staff at Washington, D. C., composed of the Office of the Administrator, 1 staff office, and 6 divisions; it has no field offices. Facilitating technical services in Washington and the field are provided by the Bureau of Mines and the Geological Survey. DMEA's accounting is performed by the Office of the Secretary of the Interior and by the Bureau of Mines.

General Accounting Office audits

DMEA was designated for audit on a comprehensive basis effective July 1, 1951. Since that date the General Accounting Office has audited DMEA accounts maintained in the Office of the Secretary and by the Bureau of Mines in Washington, D. C., and its regional offices.

The General Accounting Office has submitted the following reports to the Congress on the audit of Defense Minerals Exploration Administration.

Period covered:	*Date submitted*
Fiscal year 1952	Oct. 29, 1953
Fiscal year 1953	June 8, 1954
Fiscal year 1954	May 31, 1955

General Accounting Office recommendations to the Congress

Recovery of interest costs and administrative expenses.—Since inception of DMEA, exploration program payments to operators have been financed from funds borrowed from the Treasury at interest rates averaging about 2 percent per annum. Contracts with exploration contractors provide only for repayment of principal in the event of a mineral or metal discovery. To assure recovery by the Government of its direct costs in the exploration program to the maximum extent possible, the General Accounting Office recommended in its audit reports for the fiscal years 1953 and 1954 that the Congress consider enacting legislation requiring DMEA to provide in its contracts, a clause requiring payment of interest on funds advanced and a fair share of the administrative expenses incurred, in addition to principal repayments, by those contractors who succeed in making certified discoveries.

General Accounting Office recommendations to the agency

Recommendations to the Secretary of the Interior and the Administrator, DMEA, in the General Accounting Office audit reports for the fiscal years 1952 through 1954 included the following:

Suggested change in organization for administration of exploration aid program.—Technical services required by DMEA programs are provided by the Bureau of Mines and the Geological Survey. The Bureau of Mines also maintains accounting records for DMEA. To reduce the high cost of administration and provide for greater efficiency in operation of the exploration program, the General Accounting Office recommended that DMEA's functions be transferred to the Bureau of Mines. The General Accounting Office recommended also

that the Department review the DMEA exploration program to determine, in the interests of economy and efficiency, whether the currently required automatic participation by the Geological Survey in all phases of the program is necessary. Officials of the Department informed the General Accounting Office that it would not be possible to give the exploration aid program the proper top managerial direction in the Bureau of Mines because that Bureau is primarily a research agency. These officials felt that the Bureau should continue to restrict its activities to research as much as possible.

Deficiencies in exploration contracts.—In its audit reports for the fiscal years 1952 and 1953 the General Accounting Office recommended that the standard form of DMEA exploration contract, which limited the Government's interest to a period of 10 years, be revised to provide for a longer period of time within which reimbursement of Government cost by the operator could be required. In April 1953, DMEA regulations were amended to give the Administrator authority to increase the payment period. In fiscal year 1954, DMEA amended several contracts by extending the repayment period to 15 years or more.

Uncollected amounts due DMEA on contracts.—To eliminate delinquent and uncollectible accounts receivable, the General Accounting Office recommended that DMEA make deductions from operators' monthly reimbursement vouchers as a holdback reserve against which audit exceptions taken by DMEA could be applied. DMEA has stated that it now withholds from the operators' final reimbursement voucher overpayments brought to light in its interim audits of the operators' accounts.

Financial statements.—Accounting procedures for DMEA funds at Washington, D. C., are cumbersome. Accounting for administrative expenses of the exploration program is performed by the Department of the Interior. Accounting for financial assistance to operators and interest payments to the Treasury is performed by the Bureau of Mines, whereas DMEA is responsible for auditing disbursements to operators for carrying out their contracts. DMEA did not prepare financial reports showing costs of its programs for the fiscal years 1952 and 1953. Its financial reports for the fiscal year 1954 do not adequately present its financial position, since no reserve for losses has been established.

Internal auditing

The DMEA has no internal audit staff. However, the Contract Administration and Audit Division, DMEA, is responsible for the audit of disbursements to operators for carrying out the terms of their contracts. This audit work is performed by 5 auditors, 4 of whom are stationed in the field and 1 with headquarters in Washington, D. C. The General Accounting Office review disclosed the need at certain locations for strengthening auditing standards. Its recommendations were adopted promptly by DMEA. In fiscal year 1954 formal written procedures for the audit of exploration contracts were established by DMEA.

GEOLOGICAL SURVEY

The Geological Survey was created in the Department of the Interior by the act of March 3, 1879 (43 U. S. C. 31). The principal objectives of the Survey are the determination and appraisal of the Nation's

Production Act of 1950, as amended. As of June 30, 1954, the Treasury had advanced $15 million on DMEA interest-bearing notes. In addition, appropriations of about $1,300,000 were made by the Congress to finance DMEA administrative expenses for the fiscal years 1951–52.

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mineral and water resources, the delineation of the physical features of the United States and its Territories and possessions, and the supervision of mineral-leasing operations on Federal and Indian lands. Activities to attain these objectives include preparation of topographic, geologic, and hydrologic maps; systematic collection of quantitative and qualitative data; exploration, appraisal, and interpretation of mineral and water resources; classification of the public lands for mineral and waterpower potential; supervision of mining and oil and gas development on Federal and Indian lands; fundamental research in the sciences and techniques involved; and publication of maps and reports on these activities.

These activities are financed from appropriations by the Congress, transfers from other Government agencies, and reimbursements from States, municipalities, and others for cooperative work. Funds from these sources available for obligation during fiscal year 1955 amounted to $46,750,389, of which $26,174,472 was by direct congressional appropriation.

The Survey's management is vested in a Director who is appointed by the President with the advice and consent of the Senate. As of January 1, 1956, the Survey had 7,100 employees who were located at its central office in Washington, D. C., and in field offices in about 180 cities in the United States, its Territories and possessions, and in foreign countries.

General Accounting Office audits

The Geological Survey was placed on a comprehensive audit basis, effective July 1, 1954. Audit work has been conducted at the Survey's central office, where all official accounting records are maintained, and at 11 field offices.

BUREAU OF INDIAN AFFAIRS

The Bureau of Indian Affairs was created in the War Department in 1824 and transferred to the Department of the Interior at the time of its establishment in 1849. The Bureau's main functions are—

1. Acting as trustee with respect to Indian moneys, lands, resources, and other assets held in trust by the Federal Government.
2. Development, protection, and effective use of Indian lands, resources, and other assets.
3. Providing services to the Indians not otherwise available to them, including education and general welfare.

The administration of the Bureau is vested in a Commissioner appointed by the President on the recommendation of the Secretary of the Interior and subject to confirmation by the Senate. The Commissioner is under the supervision of the Assistant Secretary for Public Land Management, Department of the Interior.

As of January 1, 1956, the Bureau had a central office located in Washington, D. C., 10 area offices, and about 550 other installations in the United States and Alaska, and had 10,153 employees.

The Bureau's activities are financed by appropriations from the Congress, tribal trust funds, and various revenues collected by the Bureau. Except for miscellaneous receipts deposited in the general fund of the Treasury, all revenues collected are available for expenditure by the Bureau of Indian Affairs.

General Accounting Office audits

At the request of the Department of the Interior, the Comptroller General placed the Bureau on a comprehensive audit basis beginning in fiscal year 1952. Since then the General Accounting Office has made audits of the Bureau of Indian Affairs at Washington, D. C., at the area offices, and at many field locations throughout the United States and Alaska.

These audits disclosed numerous deficiencies in almost every phase of accounting operations. Early in calendar year 1953, the Bureau installed a new accounting system through the joint efforts of the Bureau, the Division of Budget and Finance of the Department of the Interior, and the General Accounting Office. The present prescribed accounting system is adequate. It is based upon recognized principles of accounting. The General Accounting Office reports, however, that there is still a great need for improvement in the maintenance of the prescribed system and procedures.

A report on audit of the Bureau of Indian Affairs for fiscal years 1952 and 1953 was submitted to the Congress on March 9, 1955. In addition, the General Accounting Office has submitted numerous reports to the Commissioner of Indian Affairs on deficiencies in administration and management controls noted during audits of area offices for fiscal years 1953 and 1954. Ten area office reports were issued for fiscal year 1954.

In addition to these audits, special examinations of certain Bureau operations have been undertaken at the request of congressional committees or Members of Congress. At the request of the Public Works and Resources Subcommittee, House Committee on Government Operations, the General Accounting Office reviewed the Bureau of Indian Affairs' leasing of a number of automobiles from a private firm. General Accounting Office representatives testified at hearings conducted by the subcommittee. Based on the General Accounting Office examination, the automobile leasing agreement was declared void by the Comptroller General in April 1955.

General Accounting Office recommendations to the Congress

Rate of interest on Indian trust funds.—In its audit report for fiscal years 1952 and 1953, the General Accounting Office recommended that the Congress consider enacting legislation to provide that the payment of interest on interest-bearing Indian trust funds on deposit in the Treasury shall be at the average interest rate paid on other Government indebtedness.

At June 30, 1954, the Indian bands and tribes had on deposit in the United States Treasury about $87 million in principal accounts, nearly all of which was drawing interest at 4 percent a year. The 4-percent interest rate was established by the act of February 12, 1929 (25 U. S. C. 161a), for all Indian trust funds over $500 on deposit in the Treasury for which specific interest rates had not otherwise been authorized by law. At the time the 1929 act was passed the average rate of interest paid by the Government was slightly more than 4 percent. At June 30, 1954, however, the average rate of interest paid by the Government was about 2.3 percent.

Termination of trusteeship over individually owned land.—The General Accounting Office report also drew attention to difficulties encountered in terminating Government trusteeship over individually

owned Indian land. House Concurrent Resolution 108, 83d Congress, 1st session, declared that—

> * * * it is the policy of Congress, as rapidly as possible, to make the Indians within the territorial limits of the United States subject to the same laws and entitled to the same privileges and responsibilities as are applicable to other citizens of the United States, * * * and to grant them all of the rights and prerogatives pertaining to American citizenship; and * * * the Indians within the territorial limits of the United States should assume their full responsibilities as American citizens * * *.

Until a solution is found, however, for (1) the obstacles which have influenced the Indians to refrain from taking the initiative in obtaining patents and (2) for the complex heirship problem, the Bureau will not be able to effectuate this congressional policy. The withdrawal problem has been further complicated by the fact that the courts have held that the Secretary of the Interior may not issue patents in fee, with respect to trust land in a tax-exempt status, without the consent of the Indian concerned.

General Accounting Office recommendation to the Bureau of the Budget

Disclosure of cost of general administration.—The General Accounting Office recommended that the Bureau of Indian Affairs' budget estimates disclose fully the manner and means of financing the Bureau's cost of general administration in order to provide the Congress with a proper basis for evaluating the Bureau's annual performance under prescribed programs, and for appropriating funds for the general administration of these programs. The General Accounting Office was informed that the Bureau of the Budget has this recommendation under consideration.

General Accounting Office recommendations to the agency

The General Accounting Office included the following recommendations to the Secretary of the Interior and the Bureau of Indian Affairs in its reports. As of February 1, 1956, neither the Department nor the Bureau of Indian Affairs had commented on deficiencies set out in the 10 area office audit reports for fiscal year 1954.

Inadequate disclosure of expenditures for general administration.—The Bureau should (*a*) disclose fully to the Congress the procedures used to supplement funds appropriated for general administrative expenses; (*b*) include in the detailed budget justifications for every Bureau activity the extent to which general administrative costs are to be financed from each activity; and (*c*) submit a detailed justification for all general administrative costs to the Congress for all fiscal years in which any costs of general administration were financed from appropriations for other purposes.

The Bureau disclosed this matter in its 1956 budget presentation to Congress and at related appropriation hearings. Budget justifications for 1956 showed the total amount estimated for general administrative costs but not the amount to be financed from each activity. A detailed justification for all general administrative costs for prior years was not submitted to the Congress.

Collection of amount due from the Navaho Tribe.—The General Accounting Office requested the Department of the Interior to collect $330,594, as provided by the act of April 4, 1910 (25 U. S. C. 145), for reimbursable road-maintenance expenditures due from the Navaho

Tribe. The Bureau is opposed to enforcing collection because of its intention to seek cancellation of the charges by special legislation or by use of the Leavitt Act (25 U. S. C. 386a).

Reduction of cost of medical, hospital, and dental services.—The Bureau should take appropriate action to reduce the cost of providing medical, hospital, and dental services. Specific recommendations included the following:

(*a*) Establish a standard procedure for determining whether a hospital patient is indigent or is able to pay for services furnished.

(*b*) Provide for furnishing the area office preparing bills for hospital services with necessary data on all hospital patients.

(*c*) Consider establishing fees for certain medical services furnished without charge by hospitals to outpatients. Take appropriate measures to bill for medical services and to obtain reasonably prompt payment for medical services billed.

(*d*) Charge fees for hospital services adequate to recover costs in accordance with appropriate regulations.

(*e*) Contract for hospital services when it is more economical to do so.

(*f*) Establish procedures to obtain administrative control over the purchase of narcotics and properly dispose of excess supply.

(*g*) Adequately use existing hospital facilities or consider transferring such facilities to other Government agencies or local authorities.

Under the provisions of the act of August 5, 1954 (68 Stat. 674), the maintenance and operation of hospital and health facilities for Indians was transferred, on July 1, 1955, from the jurisdiction of the Bureau of Indian Affairs to the Department of Health, Education, and Welfare. As of July 1, 1955, the Bureau had partly adopted some of these recommendations.

Charge water users for all costs of delivering water.—The Bureau should take action to operate the San Carlos power system on a sound financial basis and charge water users for all costs of delivering water so that increased power revenues may be available to repay the Government for the cost of the San Carlos irrigation project as provided by law (45 Stat. 210; 31 U. S. C. 725s–3). From 1929 to 1953 about one-third of the total power available at the San Carlos power system was used for irrigation pumping. The beneficiaries of this power are the San Carlos irrigation project water users, most of whom are non-Indians. Based on the amounts of energy delivered, the prorated cost of power used to operate these pumps for the period 1929 through 1953 amounted to $2,495,144. The Bureau has not charged the water users for this service. The Bureau reported, on December 31, 1953, a cumulative net deficit from power operations of $422,216 at the San Carlos power system.

Establish adequate assessment rates on irrigation projects.—The Bureau should establish assessment rates on irrigation projects that are adequate to cover all operation and maintenance costs and to place irrigation projects on a self-sustaining basis. The Bureau has raised the assessment rates on some of the irrigation projects recently, although not sufficiently to cover all costs.

Administration of irrigation projects.—Other recommendations to the Bureau, on reducing the net cost to Government of operating irri-

gation projects, or to assure the proper application of collections and the recovery of amounts due to the Government, include:

(*a*) Proper amount of unpaid irrigation construction assessments should be determined and financial records should be adjusted accordingly. Appropriate collection action should be taken on delinquent assessment accounts.

(*b*) Maintain accounting and related records in a manner that will disclose adequately the collections of irrigation operation and maintenance assessments financed by reimbursable appropriations.

(*c*) Revise cumbersome billing procedure used at Flathead irrigation project.

(*d*) Base reimbursable irrigation operation and maintenance appropriation requests solely on assessable Indian-owned irrigation project lands on which a deferment from payment of assessment charges has been properly granted.

(*e*) Stop delivery of water to non-Indian water users on Indian irrigation projects unless annual operation and maintenance charges are paid in accordance with the Code of Federal Regulations.

The Bureau has taken action on some of these recommendations. In most instances, however, action is pending.

Collect required fees to cover administrative expenses.—The Bureau should enforce the regulation requiring the charging of fees to cover administrative expenses with respect to timber used by the Navaho tribal sawmill. This would reduce the amount of administrative expenses to be borne by the Federal Government. About $39,600 is due from the Navaho Tribe for the period 1948–52. The Bureau had taken no action as of September 1955 to collect this amount.

Procurement practices.—The Bureau should enforce compliance with prescribed procurement practices and procedures. The General Accounting Office noted that open market purchases of General Services Administration stock items were made without necessary clearances, that purchases were made by employees who did not have procurement responsibilities, and that goods and services were reordered under terms of contracts which had expired. Some of these practices have been corrected.

Property management.—The Bureau should have an aggressive program of instruction and supervision on property management by area and central office officials. The General Accounting Office audits disclosed serious deficiencies in the control, care, and use of Federal Government property and supplies. Property and equipment records were not always maintained, were maintained inadequately, or were not kept in accordance with provisions of the Indian Affairs manual. The use of motor vehicles in various areas showed that motor vehicle needs should be reexamined. In certain areas some motor vehicles had received little or no use during the year. The Bureau has taken some action to eliminate these deficiencies but the action has not been completed.

Handling of individual money accounts.—The Bureau should take action to insure that procedures and regulations outlined in the Indian Affairs manual and other related instructions on the handling of individual money accounts are followed closely. The General Accounting

Office audits disclosed many deficiencies in the procedures of the Indian Service special disbursing agents and their deputies who perform commercial banking services for individual Indians and Indian tribes. For example, control over individual Indian moneys was completely inadequate, the individual account ledger and supporting records of receipts and disbursements generally were poorly maintained, certain accounts were apparently overdrawn, and collections were not deposited promptly. The Bureau has initiated action to correct these deficiencies, but many still exist at the locations where the individual money accounts are maintained.

Internal auditing

The Bureau of Indian Affairs established an internal audit organization in January 1953 in the Branch of Budget and Finance, Division of Administration. In April 1954, the internal audit function was transferred to a separate audit branch responsible directly to the Assistant Commissioner (Administration).

To June 30, 1954, the staff, consisting of five auditors, was engaged primarily in assisting and advising field employees in the requirements of the new accounting system which was installed in fiscal year 1953. Beginning with fiscal year 1955, the staff was assigned to audits at various field locations, directed primarily toward the functions of authorized collector agents and Indian Service special disbursing agents with special emphasis on the maintenance of individual Indian money accounts, and the determination that appropriations have been expended in conformity with applicable laws, Bureau approved programs, Comptroller General's decisions, and other requirements.

Because of the recent origin of the internal auditing program, the General Accounting Office has not been able to evaluate its effectiveness or its value to the management.

BUREAU OF LAND MANAGEMENT

The Bureau of Land Management was created in the Department of the Interior on July 16, 1946, pursuant to section 403 of Reorganization Plan No. 3 of 1946 (5 U. S. C., note to 133y). The Bureau is responsible for the managment and disposal of the public domain not withdrawn, appropriated, or reserved by law for administration by other Government agencies. As of June 30, 1954, the Bureau had jurisdiction over 180 million acres of public domain in the United States and 290 million acres in Alaska. Authorized activities of the Bureau encompass a variety of objectives, including development of mineral resources, grazing, cadastral surveying, soil and moisture conservation, land-use classification, administration of homestead laws, fire protection, and timber operations.

The Bureau's activities are financed primarily through appropriations by the Congress, which amounted to $13,871,698 for fiscal year 1954. The Bureau collected $77,495,443 in fiscal year 1954 from its various revenue-producing activities. About $60 million of these funds were distributed to certain States and their political subdivisions and to the reclamation and range improvement funds, in accordance with prevailing law. The remainder was covered into the Treasury as miscellaneous receipts.

The management of the Bureau is vested in a Director appointed by the Secretary of the Interior. The Bureau has a central office located in Washington, D. C., 4 area offices, an Eastern States office, 11 State offices, 14 land offices, 64 district grazing and forestry offices, and 1 range experiment station in the continental United States and Alaska, and had 1,695 employees at January 1, 1956.

General Accounting Office audits

A limited site audit of the Bureau's Albuquerque, N. Mex., regional office disbursement transactions was established on January 1, 1949, at the Bureau's request, as the result of discussions relative to various accounting problems then confronting the Bureau. At the request of the Bureau this pilot site audit of disbursement vouchers was extended on July 1, 1949, to all Bureau of Land Management regional offices. The Bureau was placed on a comprehensive audit basis effective July 1, 1951. Since that date the General Accounting Office has conducted audits of the Bureau's accounts maintained at the Central and Eastern States offices in Washington, D. C., and at its regional or area offices in Portland, Oreg.; San Francisco, Calif.; Billings, Mont.; Salt Lake City, Utah; Albuquerque, N. Mex.; and Anchorage, Alaska. These audits have included visits to numerous land offices, district grazing offices, forestry offices, and the Squaw Butte, Oreg., experimental station, all of which maintain accounting records.

The General Accounting Office has submitted the following reports to the Congress on the audit of the Bureau of Land Management:

Period covered:	*Date submitted*
Fiscal year 1952	Apr. 15, 1953
Fiscal year 1953	Feb. 3, 1954
Fiscal year 1954	May 19, 1955

It has also submitted numerous audit reports to the Director, Bureau of Land Management, covering findings on audits conducted at regional and area offices of the Bureau of Land Management. These include seven audit reports for the fiscal year 1954.

General Accounting Office recommendations to the Congress

Distribution of O. and C. receipts to counties.—In its audit reports for each of the fiscal years 1952 through 1954, the General Accounting Office disclosed that 18 counties in Oregon received more than 50 percent of the revenue from the sale of timber under the provisions of the Oregon and California Act of 1937 (50 Stat. 874). This payment was in lieu of taxes which would have accrued to the counties from the lands involved. For fiscal year 1954 over $6.5 million was distributed to the counties; this was substantially in excess of equivalent taxes. The General Accounting Office recommended consideration by the Congress of amendments to prevailing law to reduce the present prescribed rate of payments to the counties to a tax equivalent basis. This basis is contained in the act of May 24, 1939 (53 Stat. 753), covering the distribution of timber receipts from Coos Bay Wagon Road lands which were reconveyed to the Government under circumstances similar in character to the O. and C. lands.

Administration of O. and C. controverted lands.—The General Accounting Office recommended legislation to settle a jurisdictional dispute which existed between the Departments of the Interior and Agriculture relating to about 463,000 acres of O. and C. lands which had

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been placed within the boundaries of national forests by Presidential proclamation. Subsequent to this recommendation, the Congress enacted Public Law 426, approved June 24, 1954 (68 Stat. 270), which provided for administration of the lands by the Department of Agriculture and for distribution of timber revenue in accordance with title II of the Oregon and California Act of 1937. This settlement of the jurisdictional dispute released for distribution some $7,700,000 held in escrow on June 30, 1954; about $5,775,000 to the counties (75 percent) and about $1,925,000 to the general fund in the Treasury of the United States (25 percent). The General Accounting Office provided much information in connection with this legislation.

Inadequacy of grazing fees and distribution of receipts under Taylor Grazing Act.—Each of the General Accounting Office audit reports called attention to the inadequacy of the grazing revenues under the Taylor Grazing Act (43 U. S. C. 315), and showed that for the fiscal year 1954 costs of range management exceeded net revenues by more than $3 million. The General Accounting Office recommended to the Congress that the current distribution to States of grazing revenues from lands outside grazing districts (50 percent) be reduced to conform to the required distribution of grazing revenues from inside grazing districts (12.5 percent). This would reduce the annual grazing administration deficit by about $130,000.

General Accounting Office recommendations to the agency

Recommendations to the Secretary of the Interior and the Director, Bureau of Land Management, in the General Accounting Office audit reports for fiscal years 1952 through 1954 included the following:

Relocation of central office and elimination of regional offices.—The General Accounting Office recommended that the Bureau relocate its central office in a suitable western city and eliminate its regional offices. Since 99.5 percent of the 180 million acres of public domain under the Bureau's jurisdiction is in 11 Western States, this action would provide a basis for improved supervision and direction of programs, greater efficiency and economy, and more timely service to the public. The Bureau rejected the recommendation and established in lieu thereof a new echelon of supervision known as State offices (12) (including an Eastern States office) and reduced its regional offices, renamed area offices, from 7 to 4.

Decentralization of central office operating functions.—It was recommended that the Bureau relocate operating functions dealing with processing of land and mineral use and disposal applications, maintenance of certain land records, and review of cadastral surveys in the district offices where they could be handled more effectively. This recommendation was adopted by the Bureau in early 1955.

Inadequacy of filing fees and leasing rates.—It was recommended that the Bureau make a comprehensive study of its various fees and charges for the use of public domain, filing and assignment fees, and charges for grazing, and that it recover all direct and indirect costs of the various services rendered. The Bureau has recently completed field studies on the revision of certain filing fees, and a list of filing fees changes was published in the Federal Register on September 14, 1955 (20 F. R. 6746).

It was also recommended that oil and gas leasing rentals be brought into line with charges by States and prevailing private lease rental

rates. The Bureau has made a preliminary study of oil and gas leasing rental rates which indicates a need for their upward revision. However, except for leasing of submerged lands of the outer Continental Shelf, no revisions have been made in oil and gas leasing rental rates.

Inadequacy of charges for reimbursable work.—It was recommended that the Bureau recover all costs, including leave, retirement, depreciation, and other overhead items, incurred in work performed for other Government agencies and private individuals on a reimbursable basis. The Bureau has been recovering only its direct costs of labor and supplies. The Bureau has adopted this recommendation and is in the process of revising its procedures.

Grazing in excess of carrying capacity of range.—It was recommended that the Bureau eliminate licensed grazing in the Vale, Oreg., grazing district in excess of the range carrying capacity as estimated in the Bureau's 1951–52 and 1952–53 range surveys. The Bureau has rejected this recommendation, and states that other actions taken would accomplish the same purpose without serious impact on the stability of livestock operations.

Backlog of unclosed cases at land offices.—To reduce the present excessive backlog of unclosed cases at land offices, the General Accounting Office recommended that the Bureau establish a prompt initial processing of and a systematic followup procedure for all applications received for the use and disposal of public lands and mineral resources. The auditors stated that, in order to reduce the large volume of oil and gas lease assignments, the Bureau should draft legislation for presentation to the Congress to curb speculation on noncompetitive oil and gas leases on Federal lands by limiting assignments of oil and gas leases to a minimum of 640 acres. The Bureau reports that a systematic followup system is under consideration and that legislation in connection with oil and gas lease speculation has been drafted for presentation to the Congress.

Motor vehicles in excess of needs.—It was recommended that the Bureau review its requirements for motor vehicles to establish full utilization and to determine the number of vehicles which may be declared surplus for disposal or transfer to other regions or other Government agencies. The Bureau has accepted this audit recommendation and has instituted a continuing survey for motor-vehicle utilization. To June 30, 1954, the Bureau had disposed of more than 60 motor vehicles.

Administrative and accounting deficiencies.—The General Accounting Office has made numerous recommendations to the Director, Bureau of Land Management, for correction of administrative and accounting deficiencies. For example, in the case of accounts receivable, the General Accounting Office recommended that procedural changes be made in the accounting for producing mineral leases in order to obtain timely processing of royalty bills. It was also recommended that aggressive steps be taken to collect, adjust, or otherwise resolve the numerous long-standing accounts receivable. Adequate collection efforts had not been made on a number of these receivables. Advance rentals on oil and gas leases in many cases had not been promptly transferred to revenue or refunded to the applicant. Other administrative or accounting recommendations made by the General

Accounting Office related to delays in depositing collections; establishment of control over fixed assets, materials, and supplies; issuance of bills receivable before use of facilities involved; depositing trespass payments into miscellaneous receipts of the Treasury rather than into a special deposits suspense account; transfer of receipts from sale of personal property from suspense to proper account; reconciliation of differences between physical inventories and related control accounts and revision of procedures causing such differences; elimination of duplicative suspense account records maintained at both district and area offices; the preparation of internal audit programs designed to fit Bureau of Land Management activities; and the preparation of indicated financial statements and supporting schedules to facilitate management activities.

The Comptroller General reported that the Bureau's accounting methods have improved considerably since the inception of the comprehensive audit, but that further improvements are necessary.

Review of O. and C. Coos Bay funds.—During the review of the O. and C. Coos Bay funds, the General Accounting Office brought to the attention of Bureau officials a misinterpretation of the 1937 act governing the distribution of timber sale revenues. As a result, the amount earmarked for distribution to the Oregon counties was reduced by $719,000. In addition, the General Accounting Office found that the Bureau had not complied with the act of May 24, 1939 (53 Stat. 753), in that it had withheld from payment into the United States Treasury certain revenue from the reconveyed Coos Bay wagon road grant lands. Of these funds $1,054,000 was payable to the Treasury upon the expiration of a 10-year period which ended June 30, 1950, and $812,000 represented accumulations during the period July 1, 1939, to June 30, 1953, which should have been paid at the end of each year in which a balance existed. These amounts were paid into the general funds of the Treasury at the request of the General Accounting Office.

Internal auditing

The Bureau of Land Management has had an internal audit organization since July 1949. Until 1953, however, its work was limited largely to reconstructing the detail of accounts receivable and unapplied deposits, which work is not customarily performed by internal auditors. During fiscal year 1953 the Bureau revised its program, but the audit work was greatly limited in scope.

To increase the benefits to management, the General Accounting Office recommended that the internal auditing program be developed to include all the functions and activities of the Bureau, and stated that a written audit program should be designed specifically to fit Bureau of Land Management activities. Internal audit reports should be revised to include a summary of audit findings and to eliminate excessive detail. The Bureau is striving to extend the scope of its internal audits as recommended.

FISH AND WILDLIFE SERVICE

The Fish and Wildlife Service is a bureau within the Department of the Interior operating under the supervision of the Assistant Secretary for Public Land Management. The Service was established

June 30, 1940, by Reorganization Plan III of 1940 (5 U. S. C. note to 133t).

The Service is responsible for (1) conservation of the Nation's fish and wildlife resources (both for their recreational and economic values); (2) administration and enforcement of Federal fish and game protective laws; and (3) the conduct of related research activities.

The programs carried on by the Service include: (1) Protection of wildlife and migratory birds by operation and maintenance of wildlife and migratory bird refuges; (2) propagation and distribution of food fish through operation of fish hatcheries; (3) river basin studies of effect on fish and wildlife resources by proposed river development projects; and (4) Federal assistance to States for wildlife restoration and fish restoration and management projects. The Service is the Federal enforcement agency for fish and game laws enacted by the Congress. Certain of these laws, such as the Migratory Bird Treaty Act (16 U. S. C. 703–711), are based on international treaty.

The programs are financed through annual appropriations by the Congress and from permanent indefinite appropriations made available on an annual basis. Annual appropriations available to the Service during 1954 totaled $17,001,827, but total funds available for expenditure amounted to $59,556,201. The greater part of the difference represented permanent indefinite appropriations.

The management of the Service is vested in a Director appointed by the Secretary of the Interior. The Service has a central office located in Washington, D. C., and 6 regional offices, and had about 580 various types of field offices and stations in the United States, Hawaii, and Alaska on June 30, 1954. The number of paid employees of the Service (including temporary, seasonal, and wage board) was 3,502 at January 1, 1956, as compared to 3,876 at June 30, 1953.

General Accounting Office audits

The Fish and Wildlife Service was placed on a comprehensive audit basis beginning July 1, 1952. Since that date the General Accounting Office has conducted audits of the Service's operations at the central office in Washington, D. C., and at its regional offices in Portland, Oreg.; Albuquerque, N. Mex.; Minneapolis, Minn.; Atlanta, Ga.; Boston, Mass.; and Juneau, Alaska. These audits have also included visits to about 80 of the various field offices and stations, all of which maintain accounting records.

The General Accounting Office has submitted the following reports to the Congress on the audit of the Fish and Wildlife Service:

Period covered:	Date submitted
Fiscal year 1953	July 15, 1954
Fiscal year 1954	June 29, 1955

The General Accounting Office has also submitted numerous reports to the Director, Fish and Wildlife Service, covering audits conducted at the central office and the regional offices, including six reports for the fiscal year 1954.

Accounting

In its audit reports for the fiscal years 1953 and 1954 the General Accounting Office commented on the serious accounting and reporting deficiencies of the Service, and recommendations were made for their correction. A report dated June 2, 1954, submitted to the Secretary of the Interior by a survey team appointed by the Secretary to study

the reorganization and operations of the Service, included similar findings and recommendations. Studies are now being made on these matters by representatives of the Service, the Office of the Administrative Assistant Secretary of the Interior, and the General Accounting Office.

Matters for consideration by the Congress

Financing of activities from permanent indefinite appropriations.—In its audit reports for fiscal years 1953 and 1954 the General Accounting Office suggested that the Congress might wish to consider repealing the permanent indefinite appropriations now available to the Service and making annual appropriations in the future for all activities of the Service. It was stated that when collections are made available for expenditure on a permanent indefinite appropriation basis, congressional control of the expenditures and the activities financed thereby is weakened and runs counter to the spirit of the Permanent Appropriation Repeal Act, 1934.

The permanent indefinite appropriations are obtained from Federal excise taxes on firearms, shells and cartridges, fishing equipment, and sales of migratory-bird hunting stamps, and amounts received from mineral leases, timber sales, grazing fees, and other sources of revenues earned at wildlife refuges. They account for approximately 60 percent of the total funds made available to the Service for expenditure.

Limitations in annual appropriation acts not applicable to all funds available to the Service—The General Accounting Office pointed out that the limitations imposed in Interior Department appropriation acts applied only to appropriations made by those acts and were not applicable to funds obtained by the Service from permanent indefinite appropriations.

To strengthen congressional control over Service operations and to make the limitations serve the purposes for which intended, the General Accounting Office recommended that, if the permanent indefinite appropriations are not eliminated, the limitations imposed in the Interior Department appropriation acts be made specifically applicable to all funds available to the Service.

General Accounting Office recommendation to the Bureau of the Budget

Budget presentation to Congress of annual and permanent indefinite appropriations is not fully integrated.—In its audit reports for the fiscal years 1953 and 1954, the General Accounting Office recommended that the Bureau of the Budget require the Service to submit an integrated budget presentation in which the permanent indefinite appropriations would be fully related to activities for which annual appropriations were requested in order that the Congress could more fully review the operations of the Service. Heretofore, only those activities and costs have been included in the annual budget justifications that are financed or proposed to be financed from the annual appropriations by the Congress.

Representatives of the Bureau of the Budget suggested to the Department that the recommendation contained in the audit reports be adopted. In November 1954 the General Accounting Office was informed that the Department would prefer to defer any decision on

this matter until the overall problem of accounting for numerous interrelated appropriations had been solved.

In its report submitted on June 29, 1955, the General Accounting Office urged the Bureau of the Budget to require that this be done, since in its opinion the development of an improved accounting system for the Service does not preclude the submission of an integrated budget to the Congress. In its budget justifications for the fiscal years 1955 and 1956, the Service included certain information concerning the various permanent indefinite appropriations, but not in a manner that gives an integrated presentation of all costs and sources of financing by activities.

General Accounting Office recommendations to the agency

The following recommendations to the Secretary of the Interior and the Director of the Fish and Wildlife Service were included in the General Accounting Office audit reports for fiscal years 1953 and 1954.

Cooperative agreements.—The General Accounting Office recommended that the Service revise arrangements for conducting Government and cooperative operations of the rodent-control supply depot at Pocatello, Idaho, so that they would be carried out, financed, and accounted for as a single business. This recommendation was adopted when a new agreement was signed to become effective July 1, 1954.

A recommendation that revenues from aircraft operations at the Pocatello depot be covered into the Treasury as general fund receipts is being considered.

It was suggested that the need for cooperative agreements with educational institutions, relating generally to research, be reviewed and that it be determined whether the services rendered are commensurate with the costs involved. The General Accounting Office has not been advised by the Service of its views in this matter.

Recommendations that transactions under cooperative agreements covering operation of fish hatcheries at Ennis, Creston, and Miles City, Mont., and that documents retained by Woods Hole Oceanographic Institute be audited by the Service, have been adopted.

Consolidation of operating units at Crab Orchard National Wildlife Refuge.—A recommendation was made that the Service consolidate and integrate the activities of the wildlife refuge and the industrial units at the Crab Orchard National Wildlife Refuge. The refuge is composed of two organizational units, supervised by the Branch of Wildlife Refuges, each functioning independently of the other. It was stated that the consolidation would reduce costs and would provide for better use of materials, supplies, equipment, and personnel. This recommendation was adopted.

Amendment of contract for processing sealskins.—It was also recommended that the Service amend the provision of a contract requiring the contractor to carry insurance on Government-owned sealskins in its possession and that the formula for company participation in sales proceeds be revised accordingly. Contract amendments have been negotiated. The provision for insurance has been deleted, and the formula for company participation in sales proceeds has been changed. However, the General Accounting Office has not completed its review to determine the effect on the Government of the contract amendment.

Products and services furnished without charge.—The General Accounting Office has recommended that a reasonable charge be made where the Service furnishes products or services without charge to limited public groups, private individuals, and to certain employees. Specifically cited were the activities under the exploration, development, and utilization of fishery resources program which benefit directly the commercial fishing industry, and the distribution free of cost of fish for stocking private ponds.

In reply the Service stated that its policy on the operation of fish hatcheries was presented to the House Committee on Merchant Marine and Fisheries on May 12, 1949, and that it presumes congressional approval thereon; also, that the market news and statistical services are similar to operations conducted by other agencies and that it apparently was the desire of the Congress that these services be furnished without charge.

Decentralization of operations carried on in Washington.—It was recommended that operations including but not limited to the issuance of permits, Federal aid program activities, and other activities be decentralized to the regional offices. Action on these matters is being considered by the Service.

Procurement policies and procedures.—As a means of simplifying the procedures and of reducing the number of payment documents, thus reducing costs of procurement, it was recommended that petty cash imprest funds be established at the regional offices and more important field stations and that accounts be established with local suppliers which could be settled on a periodic basis. The Service adopted these suggestions in part by the establishment of blanket purchase procedures and instituting in the central office the "pilot" test use of a cash imprest fund for small local purchases.

Operation of fish hatcheries.—It was recommended that the Service completely close and dispose of the fish hatchery located on Ten Pound Island, Gloucester, Mass., which has not been in operation since July 1952, and that it review the operations at the St. Johnsbury and Craig Brook hatcheries to reduce the current high cost of production. The hatchery at Ten Pound Island has been released for disposal by the General Services Administration and a study is being made of the operations at the other hatcheries.

Winter surveys of waterfowl distribution and conditions.—The Service conducts annual summer and winter surveys of waterfowl breeding grounds for the main purpose of obtaining data for drafting of migratory bird hunting regulations. More recent and timely data for drafting hunting regulations are obtained, however, from annual summer surveys of waterfowl breeding grounds, except for certain waterfowl. As a means of reducing game management costs without impairing operations, the General Accounting Office recommended that the Service review the need for full-scale winter surveys. The General Accounting Office has not been informed by the Service of the action taken on this matter.

Complete review of property and property management required.—It was recommended that the Service make a complete review of its nonexpendable property requirements, record all nonexpendable property and significant amounts of materials and supplies in the property records, and provide for accounting control through periodic physical inventories and the reconciliation of these physical

inventories with the accounting records. These recommendations have been adopted, although action has not been completed. The Service is conducting surveys to determine the amount of property excess to its needs and, to the extent it deems advisable, is making appropriate disposition by transfer or sale.

Other administrative and accounting deficiencies.—The General Accounting Office audits disclosed various other administrative and accounting deficiencies, which were brought to the attention of the Director, Fish and Wildlife Service, with the following recommendations for corrective action.

Rates charged to permittees for privileges granted under the refuges' economic use plans should be maintained on a current basis to assure that maximum revenues are obtained. Collections should be deposited without delay. Obligations for travel and per diem costs, Government bills of lading, and duplicating services should be recorded when incurred. Outstanding travel advances to employees who perform little travel and are not now in a travel status should be liquidated. The Service adopted these recommendations.

The budgeting and programing procedures should be revised to eliminate existing duplication of effort and to eliminate the unofficial and memorandum accounting and budgetary records maintained at various levels of operation. All accounts receivable should be recorded in the general ledger accounts and the total of the outstanding bills should be reconciled periodically with the balances in these accounts. The regional offices should prepare all field station payrolls. These recommendations are under study by the Service.

Internal auditing

The Service has no internal audit staff performing the function of internal audit and review of Service-wide operations, transactions, accounts, and adequacy of internal control. The regional branches of Federal aid have field auditors who examine State expenditures under the Federal aid program. This examination should be strengthened, however, by detailing and enlarging the scope of examinations, by preparing well-conceived reports, and by requiring periodic reviews by responsible central office employees of workpapers prepared during these examinations. Although action has not been completed, the Service is improving its procedures for examining and reporting on State aid expenditures.

A definite need exists for an internal audit staff to review Service-wide operations in order to provide management with the controls necessary to determine that approved policies and procedures are being carried out effectively and economically. The General Accounting Office believes that the audit staff should be organized as part of the Division of Administration and should make all internal audits in the Service, including the examinations of expenditures by States under the Federal aid acts which are now performed by employees in the regional branches of Federal aid.

NATIONAL PARK SERVICE

The National Park Service was created in the Department of the Interior pursuant to the act of August 25, 1916 (16 U. S. C. 1).

The fundamental objective of the National Park Service is to promote and regulate the use of the national parks, monuments, and

similar reservations, in conformity with the act of August 25, 1916, in order to "conserve the scenery and the natural and historic objects and the wildlife therein and to provide for the enjoyment of the same in such manner and by such means as will leave them unimpaired for the enjoyment of future generations." This objective extends to the Service's activities pertaining to the preservation of American antiquities, historic and prehistoric sites and buildings, and properties of national historical or archeologic significance. A further objective of the Service is to provide assistance to the States in the development of public park and recreational-area facilities. On June 30, 1955, the Service had jurisdiction over 181 national parks, monuments, and other field areas, consisting of about 24 million acres of Federal lands located in the United States, Alaska, Hawaii, Puerto Rico, and the Virgin Islands.

Activities of the National Park Service are financed primarily through appropriations by the Congress, which amounted to $32,825,590 for the fiscal year ended June 30, 1955. During the fiscal year 1955, the Service reported collections of $4,914,239 from its various revenue-producing activities. Except for certain admission fees and rental income, these receipts are required by law to be deposited in the Treasury as miscellaneous receipts.

The management of the Service is vested in a Director appointed by the Secretary of the Interior. It has a central office located in Washington, D. C., 5 regional offices, 2 design and construction offices, and 181 field (park) areas. On January 1, 1956, the Service had 4,216 employees exclusive of employees engaged in maintenance and operation of the White House and grounds under the administration of the National Capital Parks.

General Accounting Office audits

The General Accounting Office began a comprehensive audit of the National Park Service in fiscal year 1955. During that year, comprehensive audit reviews were conducted in Washington, D. C., and at several regional and park locations.

BUREAU OF RECLAMATION

In July 1902, the Secretary of the Interior approved the establishment of a Reclamation Service as a part of the Geological Survey, in accordance with the Reclamation Act of June 17, 1902 (32 Stat. 388). In March 1907, the Reclamation Service was removed from the Geological Survey and established under a Director. In June 1923, the Secretary created the position of Commissioner of Reclamation and changed the name of the Service to Bureau of Reclamation.

The Bureau is authorized to make examinations and surveys, and to construct, operate, and maintain works for the storage, diversion, and development of waters for irrigating arid and semiarid lands in 17 Western States. The Bureau is also authorized to conduct investigations in the Territory of Hawaii (Public Works Appropriation Act, 1956, 69 Stat. 354). It is conducting investigations, and has constructed the Eklutna hydroelectric power project in Alaska (Interior Department Appropriation Act, 1949, 62 Stat. 1112, and subsequent appropriation acts; act of July 31, 1950, 64 Stat. 382). In recent years, the activities of the Bureau have been concerned largely with

comprehensive river basin developments through construction and operation of multiple-purpose projects. In addition to water for irrigation, these projects provide hydroelectric energy, flood damage prevention, aids to navigation, water for domestic and industrial uses, and serve other purposes.

A reclamation fund was established by the Congress under the Reclamation Act of June 17, 1902, as amended, into which the receipts from the sale of public lands, proceeds from the Oil Leasing Act, and certain other revenues are required to be deposited. Unless otherwise provided by law, receipts from all irrigation projects constructed by the Bureau, including revenues from power sales, are also covered into the reclamation fund. The principal sources of receipts deposited into the reclamation fund in fiscal year 1954 were power revenues ($41,578,238), royalties from oil leases ($24,761,238), water rentals ($5,301,791), and repayments of irrigation project construction and operation and maintenance costs ($4,825,008).

Reclamation activities are financed principally by congressional appropriations from the reclamation fund and the general fund of the Treasury. In fiscal year 1954 the Bureau received appropriations of $147,454,998; of this amount, $74,884,496 was derived from the reclamation fund and $65,505,454 from the general fund of the Treasury.

The management of the Bureau is vested in the Commissioner of Reclamation who is appointed by the President. Activities are administered through offices of the Commissioner located in Washington, D. C., and Denver, Colo., seven regional offices responsible to regional directors, and a district office at Juneau, Alaska.

Accounting

This committee, on February 23, 1948, submitted to the Senate a report with an accompanying Federal budget worksheet (committee print) designed to assist the Appropriations Committees of the Congress in considering budget requests then pending before the 80th Congress. In this report it was pointed out that, due to important omissions in the summaries contained in the budget document, especially of "prior year" and "no year" appropriations, the potential expenditures of the Federal Government were nearly $4 billion more than was estimated by the President in his budget message, and that this reporting deficiency pointed up the need for a uniform method of determining appropriations and obligations. This discrepancy in accurately reporting funds available for expenditure in a given fiscal year was clearly illustrated by the total funds then available to the Bureau of Reclamation, and was called to the attention of the Senate Committee on Appropriations.

In reporting the Interior Department Appropriation Act, 1948, the Senate Committee on Appropriations stated that it experienced considerable difficulty and confusion in endeavoring to obtain accurate information from the Bureau as to the estimated unobligated funds available for use during the fiscal year 1948 (S. Rept. 278, 80th Cong.). The committee also stated that it felt that the "accounting and reporting system of the Bureau of Reclamation should be such as to make possible in a short time the accurate determination of the amount of funds obligated and the anticipated unobligated balance that would be available in an ensuing fiscal year." The committee directed the Secretary of the Interior to improve the accounting and reporting

system of the Bureau of Reclamation. Accordingly, organizational changes in the budgeting and finance function were made and preliminary work was done by the Bureau toward developing a new accounting system. Revision of the system was subsequently undertaken through an interagency committee composed of representatives of the Office of the Secretary of the Interior, Bureau of Reclamation, Bureau of the Budget, Department of the Treasury, and the General Accounting Office. This committee, which began its work in May 1948, proceeded vigorously until a complete revision was achieved and put in effect in July 1950.

The revised accounting system of the Bureau was approved by the Comptroller General on October 6, 1950, subject to four qualifications. One has been satisfactorily resolved. The remaining three qualifications, relating to the policy on depreciation of facilities in service, treatment in the accounts of receipts from repayment contracts, and accrual of leave earned by employees, have not been removed. In approving the accounting system subject to qualification, recognition was given to the need for additional time to permit adequate and complete review of the respective problems.

In view of the many difficult operating problems encountered in reclamation activities, the Bureau is to be commended for its progress in applying the revised accounting system. The Comptroller General reports, however, that certain refinements in the basic structure are necessary in order to realize its full value. In visits to the more than 50 accounting offices, the General Accounting Office found a number of failures to carry out properly the requirements of the finance manual, but, in the main, the auditors have been favorably impressed and believe that these deficiencies can be minimized through adequate administrative reviews by the regional offices, and that continued improvement should be expected.

General Accounting Office audits

Based on a request by the Secretary of the Interior that a commercial-type audit be made of the Bureau, a preliminary review of financial records and accounts of the Central Valley project was undertaken by the General Accounting Office for fiscal year 1950. After this review, all of region II of the Bureau was placed on a comprehensive audit basis in fiscal year 1951. Regions III and IV were included for comprehensive audit beginning in fiscal year 1952; the Commissioner's offices in Washington, D. C., and Denver, Colo., and regions I, V, VI, and VII were included effective January 1, 1952, to give complete comprehensive audit coverage to the Bureau. In conducting audits of the Bureau, the General Accounting Office reviewed the principal operating activities and examined records and financial transactions at the Commissioner's offices in Washington, D. C., and Denver, Colo., and at each of the regional and project offices throughout the 17 Western States and the Territory of Alaska.

The General Accounting Office has submitted the following reports to the Congress on audits of the Bureau of Reclamation.

Fiscal year:	*Date submitted*
1952–53	July 6, 1955
1954	Oct. 18, 1955

In addition, the General Accounting Office has submitted numerous reports to the Commissioner of Reclamation on reviews of organiza-

tion, procedures, and internal controls in the Commissioner's office at Denver, Colo., the Alaska district office, and the seven regions.

General Accounting Office recommendations to the Congress

The General Accounting Office included the following matters for consideration by the Congress in its audit reports covering fiscal years 1952, 1953, and 1954.

Expenditures at Fort Peck project, Montana, not subject to annual congressional approval.—Revenues from the sale of electric energy at Fort Peck project in Montana are available for operation and maintenance and emergency expenditures on a permanent annual basis and are not subject to annual consideration by the Congress. For fiscal year 1954 the expenditures, principally for operation and maintenance, were $632,790, and power revenue collections were $1,951,775. The GAO suggested that the Congress consider providing annual appropriations to the Bureau of Reclamation for transmitting and marketing the power as it does for the power marketing activities of the Bonneville, Southeastern, and Southwestern Power Administrations, in lieu of the present arrangement of using the receipts without congressional review and control, and that it provide a reasonable amount from receipts as a continuing fund to defray emergency expenses and to insure continuous operations.

Need for uniform policies and criteria for the Federal resources program.—Laws forming the basis for the Federal water-resources program do not provide uniform policies or criteria to be applied in allocating construction costs of multiple-purpose projects and in establishing rates for commercial power. Existing laws are subject to varying interpretations depending upon the agency involved.

Not only have the allocations of costs as prepared by the Bureau and the Corps of Engineers differed through use of different methods and procedures, but there has been a difference of opinion as to who has the responsibility for making the allocations and determining and establishing the costs to be recovered through power rates. In addition to the divided responsibility between the corps and the Bureau, the Federal Power Commission, in exercising its authority over rates on power from corps-constructed dams, has encountered the obstacle of contrary legal views. The Department of the Interior has not recognized that the Federal Power Commission has any authority in approving rates for power produced by corps constructed and operated dams and powerplants and marketed by the Bureau.

The issue between the Department of the Interior and the Federal Power Commission is much deeper than the issue of jurisdiction, since it involves planning questions, such as allocation of costs between various elements in the multiple-purpose projects and the time within which given projects should repay the recoverable costs.

The GAO has suggested that the Congress provide policies and criteria to be applied in the allocation of costs of multiple-purpose projects, the results of which serve as the basis for establishing rates for commercial power. It was suggested that the policies and criteria deal with (1) the period for repayment of construction costs, (2) the rates of interest, and (3) the extent of subsidies for nonpower purposes. The GAO also suggested that the Congress may wish to clarify the role of the Federal Power Commission to approve allocations of construction costs and rate schedules for sale of power.

The reclamation law does not provide for participation by the Federal Power Commission in establishing power rates. The 1944 Flood Control Act provides generally that the Federal Power Commission is to confirm and approve rates for power at Corps of Engineers projects, and provides in another section that power developments constructed by the Bureau of Reclamation shall be governed by reclamation law. This ambiguity has resulted in the Federal Power Commission claiming authority to review the rates for sale of power of certain Bureau power projects, with the Bureau denying that such authority exists.

In a memorandum from the Assistant Secretary of the Interior to heads of the bureaus and offices in the Department, dated April 2, 1954, it was stated that general agreement on cost allocation of multiple-purpose projects had been reached with the Corps of Engineers and the Federal Power Commission. This memorandum provided also for joint participation in making the allocations and for referring failures to reach agreement in the field by the staff officers to the Secretary for consideration. The GAO has been informed that progress is being made in reaching allocations of construction costs acceptable to these agencies in multiple-purpose projects of joint interest, but the GAO has stated that this leaves unsettled the basic problem of final responsibility for making such allocations.

Continuing the Missouri River Basin project as a single entity.—The Missouri River Basin project is being constructed jointly by the Bureau of Reclamation and the Corps of Engineers as a single comprehensive development embracing the entire Missouri River Basin containing about one-sixth of the land area of the United States.

The authorizations for this project in the Flood Control Act of 1944, and the act of July 24, 1946, were based on general plans set forth in House Document 475 and Senate Document 191, 78th Congress, as revised by Senate Document 247, 78th Congress. The plans developed in these documents were based on a tentative evaluation of engineering findings and repayment capacity. Repayment capacities of the units of the project are merged in an overall plan by treating the estimated total construction costs and revenues for all units from all purposes as a single project. Financial feasibility is shown for many of the units, including those not under construction, by using an amount referred to as "pooled power revenues", representing the excess of power revenues over commercial power costs for all power installations. Investigations on many units not under construction or programed for construction have been limited; other units have been abandoned or deferred, based on findings after heavy investigation and planning expenditures; and some units have been built that do not serve the anticipated purposes. However, an evaluation of the repayment capacity of the project has been deferred to many years in the future.

The Bureau has made substantial expenditures for general and project investigations and planning in the Missouri River Basin project. These substantial costs are due, in part, to the limited planning prior to authorization of the project as a single comprehensive development of the entire Missouri River Basin, and, in part, to deficiencies in administration of the planning program after authorization.

The GAO has suggested that the Congress may find it desirable to consider the advisability of continuing the Missouri River Basin proj-

ect as a project under its present comprehensive authorization, since there appear to be weaknesses in the financial feasibility of the project. It has been suggested, as an interim measure, that the Congress require the Bureau to disclose the capacity of units of the project now constructed and under construction as a group to repay the reimbursable costs of the group, including the costs incurred on abandoned and deferred units. It was suggested also that the Congress, prior to providing initial appropriations for construction of new units, measure progressively the status of the repayment capacity of the project by including the proposed units with the units constructed or under construction as a group, and that detailed investigations and planning programs for this project be submitted and justified to the Congress in the annual budget requests.

Application of reclamation law to Hungry Horse project.—A division of opinion has existed between the Bureau of Reclamation and the Bonneville Power Administration, which is directly concerned with the marketing of the Hungry Horse project power, as to whether or not the Hungry Horse Dam and powerplant is to be treated as a reclamation project governed by reclamation laws, principally section 9 of the Reclamation Act of 1939 and the provisions of the Hayden-O'Mahoney amendment of April 9, 1938.

Provisions of reclamation law have been applied to the Hungry Horse project by the Bureau, although the act authorizing construction of the project does not specifically provide for this. Revenues from projects authorized under reclamation law are required to be deposited into the reclamation fund, a special fund in the United States Treasury, which is restricted for use for reclamation purposes. If reclamation law is not applicable to a project, revenues are to be deposited into the Treasury as miscellaneous receipts. About $5 million of the revenues from the Hungry Horse project had been deposited into the reclamation fund through June 30, 1954. This amount is about equal to specific construction appropriations from the reclamation fund from 1946 through 1948; therefore, its deposit into the reclamation fund appears to be proper. A question exists, however, as to whether future revenues should be deposited into the reclamation fund.

This matter has been under consideration by the Department for a considerable period of time. On October 14, 1954, the Acting Solicitor of the Department advised the GAO that an allocation report was being prepared and that a decision would be made as to whether the Hungry Horse project is a reclamation project.

In view of this doubt and other related problems, the GAO has suggested that it may be desirable for the Congress to examine this problem and establish a clear-cut congressional policy on this matter at this early stage of operation.

Interest on costs allocated to power not returned to Government as earnings on investment.—Power rates have been established to include the return of costs of construction allocated to power and interest on the unamortized balance. On the basis of an opinion of a former Solicitor of the Department, the interest has been applied to repayment of construction costs allocated to irrigation that water users are unable to repay.

The result of this policy is that, at the end of the repayment period, generally about 50 years, the aggregate of the amounts received from

the water users, power users, and all other sources will about equal all the repayable amounts of a project financed from the United States Treasury, but will not include interest on the investment in power facilities.

On July 2, 1954, the Commissioner issued instructions that the interest component was not to be applied to repayment of interest-free debt repayable from power revenues in project repayment studies in certain of the Bureau's major projects for 1954.

In view of the lack of a concrete congressional directive on the question of the use of the interest component, and since the Bureau's policy could be revised again, the GAO suggested that the Congress examine the policy that has been adopted to determine whether it should be affirmed or modified.

Allocation to nonreimbursable purposes.—Costs of operation and maintenance of multiple-purpose facilities at 13 projects during 1954 were allocated to flood control and navigation as nonreimbursable, in amounts of $294,398 and $30,811, respectively. These allocations were based on a provision in the 1954 Interior Department Appropriation Act, but its legislative history under the 1953 Appropriation Act (the first act having this provision) dealt with a single project and exclusively with flood control. While allocations of construction costs of projects may be made only by the Secretary of the Interior within a framework of legislative standards, the allocations of operation and maintenance expenses are made by regional directors under delegations from the Commissioner of Reclamation.

The GAO suggested that the Congress review the bases for the Bureau's allocations of annual operation and maintenance expenses to determine whether the policy is in accordance with the results intended by the Congress in adopting the amendment contained in the 1953 appropriation act. Coupled with this is the expressed desirability of having the Congress provide specifically for the purposes and the basis on which annual operation and maintenance expenses may be allocated to nonreimbursable purposes by the Secretary of the Interior. The GAO believes that the requirements for allocating operation and maintenance expenses as nonreimbursable to the United States Government should be no less stringent and subject to no less review and approval than those for allocating construction costs to nonreimbursable purposes.

Nonreimbursability of expenditures for Colorado River front work and levee system.—Costs of activities carried out under the Colorado River front work and levee system are not now reimbursable to the United States Government on the basis that the authorizing legislation does not require reimbursement except for the limited provision for local participation. Drainage, flood control, channel rectification, and water diversion activities are in part incident to the construction of multiple-purpose dams in the lower Colorado River rather than to the river in its natural state.

The GAO expressed the belief that there is a distinction to be made between the beneficiaries and origin of flood control and other activities necessitated by rivers in their natural state, and similar activities necessitated by structures placed in a river to serve other purposes. The GAO further stated that certain features of the Colorado River front work and levee system should be more properly

considered a cost toward the construction, operation, and maintenance of the dams and reservoirs in the Colorado River.

The GAO suggested that the Congress review the activities carried out under the Colorado River front work and levee system, for the purpose of determining whether the parties receiving the primary benefits of these dams should reimburse the United States Government for an appropriate share of costs incurred as a consequence of the construction and operation of the series of dams and reservoirs in the lower Colorado River.

Soil and moisture conservation operations—construction and operation and maintenance not included in project costs.—Soil and moisture conservation operations of the Bureau have been expanded to include the construction of control and other works for the protection of project facilities and to assure continuous use of these facilities as integrated parts of the project. Costs of the soil and moisture construction and their operation and maintenance, however, are not included in the project costs.

The GAO suggested that the Congress review the soil and moisture conservation operations of the Bureau for the purpose of controlling the scope of these activities and the classification of the costs as reimbursable or nonreimbursable. The GAO believes that these expenditures for the construction of control and other works as integral parts of the project and for the protection of project works ought to be included in the costs of constructing and operating and maintaining the projects.

Flexibility in classification of general administrative expenses.—General administrative expenses of the Bureau are not reimbursable to the United States Government under provisions of the act of December 5, 1924, as amended. The Bureau's definition of these expenses, however, provides considerable latitude for classifying general expenditures as administrative expenses, and the classification varies with the appropriations received for this purpose.

The GAO believes that all costs applicable to the supervision and administration of specific projects should be allocated and accumulated as a part of the cost of the project, and that only in this manner will the legally reimbursable costs of investigating, constructing, and operating and maintaining the projects be fully disclosed and recovered. The GAO stated that there should be a clear definition of the costs and expenses that are not appropriate for repayment by the water and power users, so that specific appropriations will be made for them by the Congress.

General Accounting Office recommendations to the agency

The General Accounting Office included the following recommendations to the Secretary of the Interior and the Bureau of Reclamation in its 1952, 1953, and 1954 reports.

Reorganization of the Bureau.—The Bureau should not maintain offices in excess of the number needed to carry out the Bureau's programs, decentralize administrative services beyond operating needs, or maintain offices after the need for them no longer exists.

In its report on the Interior Department appropriation bill, 1954, the Committee on Appropriations, House of Representatives, urged the Secretary of the Interior to give consideration to a reorganization of the Bureau that would provide for (*a*) establishing Denver as the

main administrative center, (*b*) a reduction in number of regional offices from 7 to 3, (*c*) a reduction of district offices from 18 to 5, and (*d*) a minimum reduction of 35 percent in the number of personnel. Following a survey and report by a survey team appointed by the Under Secretary, certain administrative functions were transferred from Washington to Denver. The number of regional offices remained unchanged at 7, and district offices (renamed consolidated projects offices) were reduced from 14 at June 30, 1953, to 9 at June 30, 1954. The number of personnel at June 30, 1954, was 10,349, a reduction of 3,494, or 25 percent from June 30, 1952. Further reductions after June 30, 1954, were made and on January 1, 1956, the number of employees was 9,548.

The centralization of administrative services and operating activities of projects in the regional offices, under the direct supervision of regional staffs, does not follow a true line-and-staff organization. The GAO believes that the number of regional offices makes it difficult to provide economically an appropriate division of line and staff functions, and has recommended that a more detailed survey be made by the Secretary of the Interior of the decentralization of staff functions to the seven regions in relation to the activities, workloads, potential programs and development, and other matters, for the purpose of dealing specifically with the number of regional offices in the Bureau. The auditors state that consolidation of reclamation activities into 3 or 4 regions could result in an adequate supervisory and administrative execution of the reclamation program and reduce administrative overhead.

Need for Secretarial approval of allocations of construction costs.—Criteria for allocation of construction costs of incomplete and future multiple-purpose projects was established in a statement dated April 2, 1954, by the Department of the Interior, for use by agencies within the Department. The GAO reports that most existing tentative cost allocations of the Bureau of Reclamation fail to meet this criteria.

Few of the existing construction cost allocations are final, and most of the allocations that now exist have been made by the Bureau on a preliminary or tentative basis to serve the Bureau's administrative needs. These construction-cost allocations do not represent an official allocation by the Secretary that can be used as a basis for financial administration and review. The GAO recommended that the Secretary have the allocations submitted to him for approval as an official construction cost allocation.

After making this recommendation, the GAO was advised that (*a*) the Secretary will not review an existing cost allocation unless it becomes a significant factor in the reevaluation of the project, (*b*) all new allocation studies will use the criteria provided in the statement of April 2, 1954, and (*c*) allocations by the Bureau have been submitted to the Secretary for approval as to policy matters.

Inclusion of Fort Peck project as part of Missouri River Basin project.—The Fort Peck project is considered by the Bureau as an integral part of the Missouri River Basin project for purposes of determining the latter's feasibility and repayment. The project was separately authorized for construction by the corps and was not specifically provided for in legislation authorizing the comprehensive plan for development of the Missouri River Basin.

Under the legislation applicable to the MRB project an individual unit may be constructed even though the repayable costs allocated to power and irrigation cannot be recovered from the water and power users of that specific unit. It is only necessary that the reimbursable costs be repaid to the Treasury from the aggregate of all revenues of the MRB project.

The Bureau estimates that the Fort Peck project will produce net revenues of about $100 million over the repayment period of the MRB project which the Bureau intends to use to assist in repaying reimbursable costs of the MRB project.

One possible result from inclusion of these revenues would be to enable the Bureau to construct units that would not otherwise be considered for construction because of lack of total project feasibility.

The GAO recommended that, if the Bureau of Reclamation desires to continue to use the revenues from the Fort Peck project to repay reimbursable costs of the MRB project, specific legislative authority be obtained from the Congress. The Administrative Assistant Secretary of the Interior stated in December 1954 that the Department is considering this matter and will request legislative authority if it is determined to be necessary.

Not all nonrecoverable construction costs allocated to irrigation are recorded in financial statements.—Nonrecoverable construction costs totaling $29,870,311 are not segregated as nonrecoverable costs in the financial records of the Bureau. The GAO recommended that such amounts be shown as nonrecoverable costs in the financial records of the Bureau so that financial statements prepared therefrom will be more accurate.

Classification of costs of investigations.—The GAO reports that substantial costs of general and project investigations and planning are not classified properly, because amounts applicable to abandoned units and units not programed for construction are included in construction work-in-progress or active investigations accounts.

The GAO recommended that (1) the costs that are now recorded in construction work-in-progress accounts applicable to units not programed for construction be classified as investigations costs, (2) that investigations costs related to abandoned units and units not programed for construction be appropriately classified in the accounts, and (3) that the Commissioner's office develop criteria for determining the status of investigations projects as active, abandoned, or completed and unprogramed, as a guide to regional and project offices in classifying costs of investigations.

Water service contracts do not provide for increased costs of operation.—Water service contracts, which generally cover a 40-year period, provided for delivery of water at rates not to exceed stated amounts. These rates may be reduced if operation and maintenance costs are less than anticipated. However, no provision has been made for renegotiation of higher rates for increased costs of operation and maintenance.

The GAO recommended that future contracts for long-term delivery of water provide for reopening for periodic rate revisions on the basis that the interests of the Government are not adequately protected in the execution of long-term contracts unless provision is made for upward revisions in water rates when costs of operations increase.

Transfer of completed irrigation projects to associations of water users.—Some reclamation projects have been operated and maintained

by the Bureau for irrigation associations for many years. Direct costs of operation and maintenance are paid by the water users, but indirect costs for administration in the Commissioner's and regional offices are not fully reimbursed. The GAO stated that costs of Bureau operations could be reduced by transfer of operation and maintenance of completed projects to irrigation associations, and recommended that the Bureau undertake more vigorous efforts to have associations of water users assume the responsibility for operation and maintenance of irrigation facilities.

The GAO reported that, after this recommendation was made, distribution systems and works at 12 projects were turned over to associations of water users for operation and maintenance.

Unresolved financial problems at Boulder Canyon project.—The Interior Department Appropriation Act, 1949, provided that a determination be made of the proportion of the investment and expenditures for operation and maintenance at Boulder City, Nev., that are nonproject and not to be repaid to the United States Treasury from the Colorado River Dam fund. This determination has not been completed. The GAO stated that, until this is done, there can be no accurate evaluation of whether the power rates are adequate to repay the investment in the project in accordance with provisions of the authorizing act. The GAO recommended that the Bureau review this and other matters requiring action at the Boulder Canyon project, as a result of the provisions of this act, and that other problems on financing be given vigorous attention.

In November 1954, the Bureau prepared a report showing the nonproject capital investment and operating expenses at Boulder City, Nev., through May 31, 1953, and the adjustments to be made for repayment of advances from the Colorado River Dam fund. The Bureau is continuing the review to determine the adjustments required through May 31, 1954, and to settle these problems.

Financial integration of power systems in Missouri River Basin.—The Bureau is operating the power features of the Colorado-Big Thompson, Kendrick, Riverton, Shoshone, and units of the Missouri River Basin projects as an integrated power system. Power revenues are apportioned to the participating power projects on the basis of amounts required to repay costs allocated to be returned from power revenues without reference to quantity of power delivered to the system. There is no specific legislative authorization for this integration. Consolidated operation provides simplification and economies, but the GAO reports that the method followed by the Bureau in allocating net power revenues to the projects does not disclose the actual financial results of the individually authorized projects.

The GAO recommended that the Department obtain specific legislative authorization for the consolidation of power operations and that the basis for allocating the resulting net power revenues to the respective projects be reviewed.

Lack of a sound depreciation policy.—According to the GAO reports, the Bureau does not have a fundamentally sound depreciation policy for cost accounting purposes. Bureau policy established on April 15, 1954, provides only for recording in the financial records provisions for replacements based on rate studies and repayment

analyses. Depreciation is to be recorded in memorandum records only. Also, the basis for the provisions is inadequate.

The GAO recommended that the Bureau establish and apply a policy on depreciation that will provide for recording in the books of account as a cost the amounts attributed to reduction in service lives of plant.

Interest on investment in commercial power facilities not recorded.—Power rates established by the Bureau are designed to return, in addition to other costs to be repaid by commercial power, interest on the unamortized investment in power facilities. Through June 30, 1953, the Bureau had not recorded the interest on the Federal investment in commercial power facilities to be paid from revenues as an element of cost, except at the Boulder Canyon project. By letter dated April 15, 1954, the Commissioner stated that amounts for interest on commercial power investment, calculated from dates placed in actual revenue-producing service, are to be recorded in the accounts of the Bureau. The GAO believes that interest is an element of cost from the dates of expenditures and that the dates when placed in service are significant only in determining the assignment of the amounts to costs of construction or expenses of operation. It recommended that the Bureau record the interest as an element of cost both during construction and operation.

On July 2, 1954, supplemental instructions were issued by the Bureau to provide interest on Federal investment during construction on certain projects.

Financial reporting

The GAO believed that the Bureau's financial reporting to the Congress and the public needed to be improved, particularly on water operations and the status of repayments of reimbursable irrigation costs by sources of repayment. It recommended that the Bureau provide financial reports to the Congress and to the public on the results of all its operations.

Internal auditing

At June 30, 1955, the Bureau had 16 field auditors. In addition to its regular internal audit program, the audit staff (1) examines water users' accounts and related Bureau records, (2) audits accounts and records of construction and supply contractors, and (3) make special investigations and audits of utilities, municipalities, and other agencies or individuals having contractual and financial relationships with the Bureau. Since inception of the internal audit program in 1948, all projects either completed or under construction, have been audited but the Bureau has not been able to get its audit program on a current fiscal year basis. The work of the internal auditors, however, has been of considerable value to the management of the Bureau. Audit reports have pointed out areas of administrative deficiencies in procedures and have indicated measures to correct them. The audits and related reports have been the basis for negotiation or renegotiation of repayment contracts. The work of the internal auditors has been an aid in the successful installation of the new accounting system. The internal audit reports have also been of value to the General Accounting Office.

BONNEVILLE POWER ADMINISTRATION

The Bonneville Power Administration was created in the Department of the Interior under the authority of the Bonneville Project Act of 1937 (16 U. S. C. 832) to distribute and market electric energy generated at the Bonneville Dam, built and operated by the Corps of Engineers, Department of the Army. By subsequent legislation and Executive and departmental orders, BPA was designated the distributing and marketing agent for electric energy generated at most of the Federal multiple-purpose projects in operation or under construction in the Pacific Northwest. At June 30, 1955, there were 7 multiple-purpose projects in operation with an installed capacity, exclusive of units for station use, of 3,588,800 kilowatts. In addition, there were three projects under construction.

The BPA is managed by an Administrator appointed by the Secretary of the Interior. The headquarters office is located at Portland, Oreg., and area and district (subarea) offices are located in various parts of the Pacific Northwest. The Administration had 2,138 employees on January 1, 1956.

General Accounting Office audits

The General Accounting Office submitted a report to the Congress on July 11, 1955, covering its audit of the Bonneville Power Administration for the fiscal year 1954. It has also submitted to the Secretary of the Interior reports on the Columbia River power system covering fiscal years 1953, 1954, and 1955. The reports to the Secretary presented financial data on a combined basis for the Columbia River power system, which consists of the Bonneville Power Administration and multiple-purpose projects of the Corps of Engineers and the Bureau of Reclamation for which the Bonneville Power Administration is the power-marketing agent. The transmission system and the hydroelectric plants of these multiple-purpose projects are operated as an integrated power system. In order to issue the power system reports the General Accounting Office began to make site audits of the Bonneville Power Administration with the period starting July 1, 1952. In connection with these site audits, the GAO has made audits of the Corps of Engineers and Bureau of Reclamation offices having responsibility for the generating projects in the Columbia River Basin.

SOUTHEASTERN POWER ADMINISTRATION

The Southeastern Power Administration (SEPA) was created on March 21, 1950, by the Secretary of the Interior to distribute and market electric energy generated at multiple-purpose projects under the control of the Corps of Engineers, Department of the Army. Pursuant to section 5 of the Flood Control Act of 1944 (16 U. S. C. 825s), the Secretary of the Interior became the marketing agent for surplus electric energy generated at all reservoir projects under the control of the Corps of Engineers. The SEPA has been designated the power marketing agent in the States of West Virginia, Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Tennessee, and Kentucky. On June 30, 1954, there were seven multiple-purpose projects in operation with an installed capacity, exclusive of units for station use, of 988,400 kilowatts.

The SEPA is managed by an Administrator appointed by the Secretary of the Interior. The headquarters office is located at Elberton, Ga. The Administration had 50 employees at June 30, 1954, which number was reduced to 32 as of January 1, 1956.

General Accounting Office audits

The SEPA was assigned for audit on a comprehensive basis effective July 1, 1952. The General Accounting Office has submitted to the Congress the following reports on the audit of the Southeastern Power Administration:

Period covered:	Date submitted
Fiscal year 1953	Nov. 18, 1953
Fiscal year 1954	Feb. 24, 1955

During fiscal year 1952, the Administration adopted a new accounting system and has prepared financial statements as of June 30, 1952, 1953, and 1954. These statements, which are commented upon in the General Accounting Office reports, are incomplete because the Administration has made no deduction from revenues for amortization of the power portion of the Government's investment and the annual operation and maintenance expenses in the various multiple-purpose projects. It will not be possible to make these deductions until definite allocations of the construction costs of the projects have been made. The General Accounting Office states that it will be impossible to evaluate adequately the financial administration of the projects in the marketing area of the Southeastern Power Administration until these allocations are made.

Repayment of Government's investment

Expenditures by the Southeastern Power Administration for operation and maintenance are financed from congressional appropriations. It does not own or operate any transmission facilities as all power is sold at the plant site or transmitted over lines of private power companies. Its receipts from the sale of power are required to be deposited into the United States Treasury.

Final allocations of the construction costs of the multiple-purpose projects have not been made and agreed upon by the Corps of Engineers and SEPA. Because of the allocation problem, neither definitive nor interim agreements had been executed by June 30, 1954, between SEPA and the corps with respect to the operation of the projects and repayment of the Government's investment. The SEPA has deposited its receipts into the Treasury as miscellaneous receipts, but allocation of costs for operation and maintenance expenses, interest expense charged to operations, or repayment of the Government's capital investment of the Corps of Engineers generating facilities have not been made.

The SEPA is not required by law to repay a specific amount in any one year. The laws provide that, in fixing rate schedules they are to be drawn with regard to the recovery of the cost of producing and transmitting electric energy, including the amortization of the capital investment, over a reasonable period of years. The GAO audit reports for fiscal years 1953 and 1954 indicate that SEPA net revenues were not adequate to cover the costs of producing electric energy and to amortize the Government's investment in power facilities for the projects in operation for the entire year. The reports

also state that the construction costs allocated to power and the annual power charges must be finally determined before power rates can be properly established, in accordance with the requirements of section 5 of the Flood Control Act of 1944.

General Accounting Office recommendation to the Congress

Authority to make allocations of construction costs in multiple-purpose projects.—In its audit reports for fiscal years 1953 and 1954, the General Accounting Office recommended that the Congress designate specifically the agency to make the allocation of costs for projects either constructed or authorized for construction by the Corps of Engineers in the southeastern United States. As indicated above, allocations of the construction costs of projects are required before an adequate evaluation of the financial administration of these projects can be made. A jurisdictional dispute has existed between the Department of the Interior and the Corps of Engineers as to which agency is responsible for the allocation of costs in multiple-purpose projects. Some progress has been made in reaching an agreement on allocations of costs acceptable to both the Department of the Interior and the Corps of Engineers, but as of June 30, 1955, no firm allocations had been agreed upon. Moreover, the basic question of final responsibility for making such allocations is still unresolved. The General Accounting Office believes that this question should be resolved with finality by clarifying legislation.

General Accounting Office recommendation to the agency.

Approval of power rates by FPC.—The General Accounting Office has made several recommendations to the Secretary of the Interior and Southeastern Power Administration. The most important recommendation pointed out that the rate schedules in use by SEPA should be submitted to the Federal Power Commission for confirmation and approval, as required by the Flood Control Act of 1944. For 5 of the 7 projects from which SEPA was marketing power at June 30, 1954, approval by FPC of rates for the sale of energy either had expired or had not been received. Rate approvals for the two remaining projects were only on a short-term basis. Representatives of the Department of the Interior have informed the General Accounting Office that progress is being made in getting the power rates approved.

SOUTHWESTERN POWER ADMINISTRATION

The Southwestern Power Administration was created by the Secretary of the Interior on September 1, 1943, to sell and dispose of electric energy generated at certain Federal projects in the Southwest. Under the provisions of section 5 of the Flood Control Act of 1944 (16 U. S. C. 825s), the Secretary of the Interior was designated the marketing agent for surplus energy generated at all reservoir projects under the control of the Corps of Engineers, Department of the Army. The Southwestern Power Administration was in turn designated the power marketing agent in defined areas of the States of Arkansas, Kansas, Louisiana, Missouri, Oklahoma, and Texas.

As of June 30, 1954, the SWPA was responsible for marketing the surplus power generated from seven projects. Generation facilities at these projects consisted of 18 units, with installed capacity of 426,000 kilowatts. The SWPA has integrated its electric system with

certain private utility and generating and transmission cooperative systems in order to obtain better utilization of the Government's hydroelectric capacity for the production of peaking power and to secure the maximum benefits from this power capacity.

The management of SWPA is vested in an administrator appointed by the Secretary of the Interior. The headquarters office is located at Tulsa, Okla., and operation and maintenance units are located at Muskogee and Ada, Okla., and Springfield and Doniphan, Mo. As of January 1, 1956, SWPA had 132 employees. The Administration is in the process of reorganizing and further reducing personnel.

General Accounting Office audits

The SWPA was assigned for audit on a comprehensive basis, effective September 1, 1951. The General Accounting Office has submitted to the Congress the following reports on the audit of the Southwestern Power Administration.

Period covered:	*Date submitted*
Fiscal year 1952	July 17, 1953
Fiscal year 1953	Jan. 13, 1954
Fiscal year 1954	Dec. 31, 1954

During fiscal year 1952 the SWPA installed a revised accounting system, based on recognized principles with emphasis on the accounting requirements for public utilities. However, SWPA's prepared financial statements, as of June 30, 1952, 1953, and 1954, are incomplete, because no deduction has been made from revenues for amortization of the power portion of the Government's investment and the annual operation and maintenance expenses in the various multiple-purpose projects. It will not be possible to make these deductions until definite allocations of the construction costs of the projects have been made. The General Accounting Office states that it will be impossible to evaluate adequately the financial administration of the projects in the marketing area of the Southwestern Power Administration until these allocations are made.

Repayment of Government's investment

SWPA's expenditures for construction and operation and maintenance expenses are financed from congressional appropriations. All receipts from the transmission and sale of power are required to be deposited into the Treasury.

Final allocations of the construction costs of the multiple-purpose projects have not been made and agreed upon by the Corps of Engineers and SWPA. Consequently, neither definitive nor interim agreements between SWPA and the corps with respect to the operation of the projects and repayment of the Government's investment had been executed on June 30, 1954. The SWPA has deposited its receipts into the Treasury as miscellaneous receipts, but allocation of costs for the operation and maintenance expenses, interest expense charged to operations, or repayment of the Government's capital investment in the Corps of Engineers generating facilities have not been made.

The SWPA is not required by law to repay a specific amount in any one year. The laws provide that, in fixing rate schedules, they are to be drawn with regard to the recovery of the cost of producing and transmitting electric energy, including the amortization of the capital investment, over a reasonable period of years. The General

Accounting Office audit reports for fiscal years 1953 and 1954 indicate that SWPA net revenues were not adequate to cover the costs of producing electric energy and to amortize the Government's investment in power facilities for the projects in operation for the entire year. The reports also state that the construction costs allocated to power and the annual power charges must be finally determined before power rates can be properly established in accordance with the requirements of section 5 of the Flood Control Act of 1944.

General Accounting Office recommendation to the Congress

Authority to make allocations of construction costs in multiple-purpose projects.—In its audit reports, the General Accounting Office has recommended that the Congress designate specifically the agency to make the allocation of costs for projects either constructed or authorized for construction by the Corps of Engineers in the Arkansas, White, and Red River Basins. Allocations of construction costs of projects are required before an adequate evaluation of the financial administration of these projects can be made.

The status of the efforts of the Department of the Interior and the Corps of Engineers to reach agreement on allocations of costs is the same as that reported with respect to the Southeastern Power Administration. Likewise, as of June 30, 1955, no firm allocations had been agreed upon, and the basic problem of final responsibility for making such allocations was still unsettled.

General Accounting Office recommendations to the agency

The General Accounting Office has made several recommendations to the Secretary of the Interior and to the Southwestern Power Administration. The more important of these recommendations, together with action taken thereon are as follows:

Overstaffing.—A study should be made to eliminate overstaffing. This matter has been substantially resolved by actions taken in connection with a department survey which recommended a reduction in staff from about 248 employees on June 30, 1953, to 90.

High warehouse costs.—A study should be made to determine the reasons for the high cost of warehouse operations, and action should be taken to reduce warehousing costs. A reduction in the scope of SWPA's marketing activities and the number of employees has materially reduced the warehousing activity and has resolved the matter.

Procurement practices.—The practice in the engineering division of performing routine clerical and administrative procurement functions should be discontinued, and these functions should be performed by the procurement section. This recommendation was adopted by SWPA.

Property control section.—There is no need for a property control section, because control over nonexpendable property should be maintained by the accounts section. Action has been withheld pending reorganization of SWPA.

Accounting practices.—The General Accounting Office audits have disclosed several administrative or accounting deficiencies, which were presented to SWPA with corrective recommendations. Most of these recommendations have been adopted by the administration.

OFFICE OF TERRITORIES

The Office of Territories was established by the Secretary of the Interior on July 28, 1950, to assist in carrying out certain of his responsibilities pertaining to the Territories of Alaska and Hawaii, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, American Samoa, the Trust Territory of the Pacific Islands, and other islands in the Central Pacific. Prior to that time, Territorial functions were performed by the Division of Territories and Island Possessions, which was created in 1934.

The Office of Territories furthers the economic, political, and social development of the Territories, island possessions, trusteeship areas, and dependent areas under the jurisdiction of the United States: guides and coordinates operating programs in individual areas; provides advice and information to the Department, other Government agencies, the Congress, and the public on conditions and needs in the areas; and participates in foreign policy matters affecting these areas. The Office of Territories is composed of a headquarters organization in Washington, D. C., and area divisions in Alaska, the Virgin Islands, and the Trust Territory of the Pacific Islands.

The Office of Territories includes the following:

Alaska Public Works
Alaska Railroad
Alaska Road Commission
Governor of Alaska
Governor and Government of American Samoa
Governor of Guam
Governor of Hawaii
Governor and Government of Virgin Islands
Puerto Rico Reconstruction Administration (liquidated)
Trust Territory of the Pacific Islands (including Island Trading Company of Micronesia, liquidated)
Virgin Islands Corporation
Virgin Islands Public Works

ALASKA RAILROAD

The act of March 12, 1914 (48 U. S. C. 301–308), authorized the President of the United States to locate, construct, and operate railroads in the Territory of Alaska. Construction of a rail line from Seward to Fairbanks, Alaska, was completed in 1923. As of June 30, 1954, the Alaska Railroad operated and maintained 482.7 miles of main lines and 53.2 miles of branch lines.

Under subsequent legislation, the Alaska Railroad was authorized to purchase or construct river steamers and barges for operation on the Yukon River and its tributaries, to provide facilities for the public at Mount McKinley National Park, and to purchase stores for resale. The McKinley Park Hotel was transferred to the National Park Service on November 7, 1953, and the railroad ceased its operation of commissary facilities on June 1, 1954. The railroad operated the river boats during fiscal year 1954, but subsequently leased the facilities to private operators.

The General Manager, appointed by the Secretary of the Interior, is the chief official of the railroad. The railroad maintains its general

offices and yards in Anchorage, Alaska. As of June 30, 1955, the railroad had 1,817 employees, compared with 2,362 employees on June 30, 1953.

General Accounting Office audits

A member of the Interior Subcommittee of the House Committee on Appropriations suggested to the Department that the accounts of the railroad be audited by a reputable firm of certified public accountants, and that the audit be completed in time to be available for use by the committee during the hearings on the 1953 budget estimates. The Administrative Assistant Secretary, Department of the Interior, then requested the General Accounting Office to make an audit of the railroad at Anchorage, Alaska, pursuant to section 117 of the Budget and Accounting Procedures Act of 1950. The General Accounting Office made 2 surveys and issued 2 reports to the Congress, one as of December 1951 and the other for the fiscal year ended June 30, 1952. The railroad was placed on a comprehensive audit basis, effective July 1, 1952. An audit report for fiscal years 1953 and 1954 was submitted to the Congress on July 25, 1955.

General Accounting Office recommendations to the Congress

Tariff structure.—The General Accounting Office has recommended that an independent study of the rate structure be made and that public hearings be held. It was the view of the General Accounting Office that the tariffs for rail-line and river-boat operations should cover as nearly as practicable all costs, including depreciation, and a fair rate of return on the Government's investment. This view was concurred in by the House Committee on Appropriations (see H. Rept. 1628, 82d Cong.).

The Department states that the railroad is operated under a policy that does not require a fair rate of return on the Government's investment, and, if this policy is to continue, the fact that the railroad is presently operating in the black, after depreciation, would indicate that the rate structure is adequate for the present volume of traffic. The Department states also that any rate increase would not be conducive to the maintenance or increase of the present volume of traffic under present competitive conditions.

In its report issued on July 25, 1955, the General Accounting Office suggested that the Congress may wish to review the policy of the Department on the rate structure and to provide criteria for railroad tariffs.

Transfer of the McKinley Park Hotel.—The General Accounting Office recommended that the McKinley Park Hotel be transferred to the National Park Service, for integration into its program for tourist facilities in the McKinley National Park. Since substantial operating losses were incurred for each fiscal year, the operation of the hotel had become a financial burden to the railroad. The House Appropriations Committee recommended to the railroad that it consider the possibility of placing the operation of the hotel under a concession contract. A concessionaire took possession of the hotel facilities on June 15, 1953, under a proposed contract with the railroad. On November 7, 1953, the hotel property was transferred to the National Park Service.

Divestment of power facilities at Anchorage.—The General Accounting Office also called attention to the fact that the enabling act did

not specifically authorize the Railroad either to construct or to operate steam-power facilities other than for its own use. The House Appropriations Committee then recommended that the Railroad divest itself of the steam-power facilities in Anchorage. As a result, in May 1952, the Secretary of the Interior assigned to the Bureau of Reclamation the responsibility for operating the combination diesel-steam-power generating plant. Under this arrangement, the Railroad was to complete the construction of the plant, retain ownership of the facilities, and advance funds to the Bureau of Reclamation for their operation and maintenance. Revenues collected by the Bureau were to be deposited to the credit of the Railroad. The Bureau of Reclamation assumed operating supervision on November 7, 1952.

In the opinion of the GAO, this plan was not in accordance with the House Appropriation Committee's recommendation. On December 1, 1953, the operation by the Bureau of Reclamation was terminated and the Chugach Electric Association, Inc., took over the operation. Negotiations are in progress to sell the Railroad's interest in the power-generating facilities in the Anchorage area to the association, which in turn would supply steam and electric energy under contract to the Railroad.

Budgeting.—In its report for fiscal year 1952, the General Accounting Office recommended that the Railroad be required to operate with a business-type budget, to be submitted annually to the Congress for approval, and that the Railroad continue its program for improving accounting and reporting on its operations. Beginning with fiscal year 1954, the Railroad presented business-type budget statements to the Congress for approval.

The GAO also pointed out that comparisons between actual and budgeted operating results were made on a quarterly basis only. Officials of the Railroad have stated that monthly, rather than quarterly, comparisons will be made during fiscal year 1955. Although the management has made concerted efforts to improve its budgetary procedures, adequate periodic explanations of variations between budgeted and actual amounts were not made in fiscal year 1955.

General Accounting Office recommendations to the agency

Terminal charges for handling interline mail.—The General Accounting Office recommended that the Railroad seek an amendment to the contract with the Alaska Steamship Co. which would provide sufficient revenue to cover mail-handling costs of the Railroad. The contract, effective July 1, 1952, with the Alaska Steamship Co. for the transportation of interline mail provides for payments to the Railroad of .0128 cents a pound, plus terminal charges (handling, loading, and unloading) of not to exceed $5 a weight ton on mail received or delivered at the Seward terminal. The General Accounting Office noted that the terminal charges collected by the Railroad were $6 a ton lower than the total amount paid by the Railroad to the stevedoring company for this service.

The Railroad believes that attempts to renegotiate the contract, which expires July 1, 1958, would prove fruitless because of an existing contract between the steamship company and the United States Post Office Department.

Loss on dormitory operations.—The General Accounting Office suggested that the Railroad review the need for providing facilities for

permanent guests, and consider alternatives to the operation of dormitories. Operations of dormitory facilities resulted in a loss of $105,028 before depreciation, repairs, and administrative and general expenses for the fiscal year 1954. To reduce losses, the Railroad increased most of the rates on July 1, 1954, and closed four dormitories. The GAO has been informed that, at the end of the 1955 working season, only four dormitories will remain open. These will be located at Anchorage, Fairbanks, and Healy.

Loss on mess operations.—The General Accounting Office has recommended that the Railroad make a periodic review of prices charged to employees and others using mess facilities, for the purpose of determining whether these operations are as nearly self-sustaining as possible. This recommendation was concurred in by the House Committee on Appropriations (see H. Rept. 1628, 82d Cong.). Prices for meals were not changed during fiscal years 1953 and 1954. Mess operations continued to show substantial losses, amounting to $276,673 for fiscal year 1954.

The Railroad informed the General Accounting Office that negotiations have been undertaken to increase the price of meals, which, it is hoped, will reduce substantially the losses being sustained.

Discontinuance of commissary operations.—The General Accounting Office recommended that the privileges available to the Railroad employees, of purchasing from the commissary at Anchorage, be revised, at least to the extent of recovering all costs of commissary operations. The House Committee on Appropriations recommended, however, that commissary facilities at Anchorage be abolished, and on June 1, 1954, the railroad discontinued the operation of commissary facilities.

Accounting system.—The General Accounting Office expressed the view that the basic accounting structure of the Railroad, established in conformance with Interstate Commerce Commission classification of accounts, was adequate, but that it failed to coordinate accounting efforts with those of other departments and to implement the prescribed system. During the early part of fiscal year 1955 a study was made of the accounting system and related requirements. A plan to achieve significant improvements in the system was devised jointly by representatives of the Railroad, Office of Administrative Assistant Secretary, Department of the Interior, and the General Accounting Office.

A statement of principles and objectives for a revised accounting system was accepted by the officials of the Railroad and the Department of the Interior and endorsed by the Comptroller General on November 29, 1954. The Railroad is currently installing the revised accounting system and developing a formal manual of accounts and procedures, which will be submitted to the Comptroller General for approval.

Restatement of investment of the United States Government.—To determine the results of operations with reasonable accuracy and to present in financial statements the Government's investment realistically, the General Accounting Office recommended that the railroad (1) restate the investment of the United States Government, and (2) establish definite policies for the accounting treatment of transactions dealing with (*a*) rehabilitation costs, (*b*) reconstruc-

tion costs, and (*c*) the losses on disposal of materials and supplies, uncollectible receivables, and unadjusted debits. The Railroad is in full accord with the recommendation, and has advised the General Accounting Office that as soon as it is able to resolve certain questions, immediate steps will be taken to give full effect to the recommendation.

Internal auditing

The activities of the Railroad's internal audit staff have been confined to the audit of station accounts and tabulation of revenue statistics. The duties and responsibilities of the Railroad's auditors have not encompassed an independent appraisal of operating and administrative procedures.

ALASKA ROAD COMMISSION

The act of January 27, 1905, as amended (33 Stat. 616), created the Board of Road Commissioners for Alaska as an agency of the War Department. The Board's duties were transferred to the Department of the Interior by the act of June 30, 1932 (48 U. S. C. 321a).

The principal functions of the Commission consist of construction and maintenance of roads and related works in Alaska. As of June 30, 1954, the road system consisted of 720 miles of through paved highways, 269 miles of through gravel highways, 1,214 miles of feeder highways, and 1,279 miles of local highways.

From January 27, 1905, to June 30, 1954, the Road Commission received $189,246,229 for the construction and maintenance of roads. Of this amount, $171,954,000 was derived from direct appropriations by the Congress.

The Commissioner of Roads for Alaska, appointed by the Secretary of the Interior, is the Commission's chief operating official. The Commission maintains its headquarters in Juneau. As of June 30, 1954, the Commission employed 992 persons, compared with 952 on June 30, 1953.

General Accounting Office audits

The Administrative Assistant Secretary, Department of the Interior, requested that the General Accounting Office give consideration to the institution of an audit of the Commission at Juneau, Alaska. A survey and review of the operations was made by the General Accounting Office for the fiscal year ended June 30, 1952, and the Commission was placed on a comprehensive audit basis effective July 1, 1952.

Reports have been made to the Congress on the survey and review of operations for the fiscal year 1952, and on audits for fiscal years 1953 and 1954. The audit reports contained analyses and evaluations of the Commission's accounts and related fiscal data as well as comments on the financial results of the operations and activities of the Commission. These comments covered such matters as (*a*) the appropriation limitation on purchase of passenger-carrying vehicles, (*b*) inadequacy of control over materials and supplies, (*c*) need for improved budgetary practices to achieve more meaningful financial information in support of budgetary requests, (*d*) the basis for and amount of contributions by the Territory to costs of maintenance of roads in Alaska, (*e*) the existence of two Federal roadbuilding organizations

in Alaska, each having different concepts on road construction, and (*f*) the payment of per diem and cost-of-living allowances to temporary employees in excess of actual costs. In addition, a report was made to the Commissioner of Roads for Alaska on the deficiencies and weaknesses in accounting and internal controls observed in the 1953 audit.

In March 1955, the Public Works and Resources Subcommittee of the House Committee on Government Operations, held open hearings on various matters contained in the audit reports of the General Accounting Office for the fiscal years 1952 through 1954.

Internal auditing

In its report for fiscal year 1953, the General Accounting Office stated that the internal audit staff, which was established in September 1952 and is composed of 2 auditors, had made but 1 visit to district offices and that this trip had been made primarily for the purpose of determining inventory differences. During fiscal year 1954, visits were made to the Anchorage, Fairbanks, and Valdez district offices, but the General Accounting Office believes that the scope of work was too limited. The audits generally were confined to an examination of mess records, payrolls, expendable and nonexpendable property records, and to a review of district overhead charges. Because the original cost records and other financial and operating records are maintained by the Commission at four district offices, the General Accounting Office believes that the efforts of the internal audit staff should be directed toward a more complete review of activities at these offices.

The General Accounting Office recommended that the internal audit staff direct its efforts to the audit of district offices and to prepare reports of findings, and that workpapers be prepared in a manner that will permit review and evaluation of Commission audit work by the General Accounting Office.

GOVERNMENT OF AMERICAN SAMOA

The treaty of Berlin, ratified by the Congress on February 16, 1900, divided control over the Samoan Archipelago between Germany and the United States. Under this treaty, jurisdiction over the eastern six islands of the Samoan Archipelago was given to the United States. The supervision of these islands was placed in the Department of the Navy. On June 29, 1951, the responsibility for the administration of American Samoa was transferred from the Navy Department to the Department of the Interior, and supervision was placed in the Office of Territories.

The total area of the islands is 76 square miles. People inhabiting the islands are Polynesians. The population was estimated to be 19,500 in 1953, an increase of about 6,500 since 1940.

The chief executive of the government is the Governor, who is appointed by the Secretary of the Interior with the concurrence of the President. The government is headquartered at Pago Pago, Tutuila, American Samoa.

Government operations are supported largely by appropriations from the Congress, which amounted to $1,550,000 for the 1954 fiscal year.

In response to a request by the Administrative Assistant Secretary, Department of the Interior, the government of American Samoa was placed on a comprehensive audit basis effective July 1, 1952. An audit report, covering the fiscal year 1953, was submitted to the Congress on April 12, 1955.

Because of numerous deficiencies in the accounting and fiscal procedures, the General Accounting Office was unable to verify the correctness of the cash, accounts receivable, inventory, and fixed asset balances as of June 30, 1953. For this reason, the General Accounting Office could not state that the Government's financial statements presented fairly its financial position at June 30, 1953, and the financial results of its operations for the year then ended.

More detailed comments on the deficiencies and weaknesses in accounting procedures and internal controls were made in a separate report to the Governor of American Samoa, together with recommendations for corrective action. Many of these recommendations have been adopted by the Governor.

GOVERNMENT OF THE VIRGIN ISLANDS

The Virgin Islands were purchased from Denmark for $25 million on March 31, 1917, pursuant to the convention of August 4, 1916 (39 Stat. 1706). At the time the islands were purchased, the Congress provided for a temporary government by the act of March 3, 1917 (39 Stat. 1132). From 1917 until 1931 the President designated naval officers to serve as governors of the islands. By Executive Order 5566 of February 27, 1931, the President placed the government of the islands under the supervision of the Department of the Interior, and provided that there should be a civilian governor.

The Organic Act of the Virgin Islands of the United States, approved June 22, 1936 (48 U. S. C. 1405), granted a greater measure of self-government to the inhabitants of the Virgin Islands and prohibited the imposition of property or income qualifications to obtain voting rights. The islands were divided into two municipalities, the municipality of St. Thomas and St. John and the municipality of St. Croix, with independent municipal councils (formerly colonial councils). The municipal councils were elected by popular vote, were authorized to enact legislation and levy taxes for application within their respective municipalities, and were required to sit together at least once a year to enact legislation applicable to the Virgin Islands as a whole.

This decentralization of activities by municipalities resulted in a costly and inefficient governmental organization composed of separate departments and numerous independent agencies, bureaus, authorities, and other instrumentalities in each municipality. The efficiency of the overall governmental organization was impaired by lack of cooperation between the municipal governments, improper coordination of the activities of the departments and agencies within each municipal organization, unnecessary overlapping of functions, and undue interference in administrative functions by the municipal councils.

Recognizing the need for major revisions, the Congress on July 12, 1954, enacted the Revised Organic Act of the Virgin Islands, which was approved by the President on July 22, 1954 (68 Stat. 497). The new act divided the Virgin Islands into three districts, St. Thomas, St.

Croix, and St. John, and drastically changed the governmental structure by providing for a unicameral legislature of 11 members, and a central government comprising a common treasury and single departments.

The act directed the Governor to reorganize the executive branch of the government into not more than 9 departments within 1 year after approval of the act, and clearly defined the Governor's responsibility for accounting and fiscal activities. It established a government comptroller, independent of the government of the Virgin Islands, to certify the net amount of government revenues which form the basis for Federal grants for the civil government, to audit, to make reports, and to settle all accounts and claims of the government pertaining to the revenues and receipts. The work of the comptroller is subject to annual review by the Comptroller General of the United States.

On June 30, 1954, the government of the Virgin Islands had 1,270 employees, of whom 80 were paid from Federal funds.

Accounting

The accounting of the government of the Virgin Islands has been maintained on a single-entry, cash-receipts-and-disbursements basis, and, except for cash, the system does not provide proper accountability for the Government's assets and liabilities.

The General Accounting Office recommended to the Government that steps be taken to provide an adequate accounting system, and, in 1953, a revised system was developed, to be installed under the supervision of a special assistant to the Governor assigned by the Administrative Assistant Secretary, but progress was not satisfactory. However, the enactment of the revised organic act in July 1954 rendered the proposed system obsolete.

In February 1955, representatives of the Department of the Interior and the General Accounting Office assisted the Governor in developing a new fiscal accounting system, and a representative of the General Accounting Office is presently assisting in its installation. Much work remains to be done, however, before the government develops an adequate accounting system on the accrual basis with accounting controls over all costs, properties, and other assets and liabilities.

General Accounting Office audits

The Virgin Islands government was placed on a comprehensive audit basis, effective July 1, 1951, pursuant to a request from the Office of the Secretary of the Interior that an onsite audit be made.

The General Accounting Office has submitted reports to the Congress covering its audits of the government for fiscal years 1952, 1953, and 1954. The latest reports were submitted on July 29 and on December 28, 1955.

General Accounting Office recommendations to the Congress

Financing and management of the Virgin Islands Corporation by the government of the Virgin Islands.—In its audit reports the General Accounting Office stated that the Congress may wish to consider discontinuing appropriations to the Virgin Islands Corporation, and to provide that the government of the Virgin Islands supply the Corporation with whatever funds are required to carry on its operations. The auditors estimated that, under the provisions of the Revised Organic Act, the government of the Virgin Islands will receive from

$1,400,000 to $2 million more each year from the United States Treasury than was received in prior years, and that, under these circumstances, there would appear to be little need for the Congress to appropriate separate funds to cover the estimated deficits of the Virgin Islands Corporation, which have averaged $500,000 in recent years.

The report stated that, if the foregoing change is made, the Congress may wish also to consider transferring the management of the Corporation to the government of the Virgin Islands at such time as that government has demonstrated adequate management capabilities.

General Accounting Office recommendations to the agency

The General Accounting Office audit reports contained recommendations to the agency on the assessment and collection of taxes; the credit review procedures at municipal hospitals; the rates charged for telephone service; leave policies and regulations; procurement policies; accounting for property and equipment; accounting for materials and supplies; and on budget preparation.

The General Accounting Office also recommended that a department of public safety be established to serve the then-existing two municipalities, and that the two departments of public works be consolidated. Its survey reports included numerous recommendations as to the functions of the proposed departments and measures to correct existing deficiencies. Subsequently, and pursuant to the Revised Organic Act which required the Governor to reorganize and consolidate the existing executive departments and other instrumentalities into not more than nine executive departments, a new department of public safety and a consolidated department of public works was established. The Governor has under consideration the specific recommendations of the General Accounting Office with respect to these departments.

Internal auditing

The act of the legislative assembly, approved May 18, 1949, established an office of the Virgin Islands auditor for auditing and settling the accounts of the government of the Virgin Islands and the municipal governments. This office functioned under antiquated and inefficient methods, developed mainly on the concept of maintaining duplicate records of transactions recorded in the government departments. In addition to making detailed audits of transactions, this office maintained obligation ledgers and was responsible for the accounting for fixed properties and equipment, functions more properly performed by the operating departments.

In accordance with section 17 (a) of the Revised Organic Act, a Government Comptroller for the Virgin Islands was appointed by the Secretary of the Interior on October 26, 1954. The functions of the office of the Virgin Islands auditor have been absorbed by the office of the Government Comptroller.

The functions of the Government Comptroller as set forth in the Revised Organic Act include:

1. Auditing and settling all accounts and claims pertaining to revenues, receipts, and expenditures of the government of the Virgin Islands.

2. Advising administrative officials of failures to collect amounts due the government of the Virgin Islands, and extravagant, excessive, unnecessary, or irregular expenditures of funds or property.

3. Certifying to the Secretary of the Interior the net amount of Government revenues forming the basis for transfer of Federal funds to the government of the Virgin Islands.

4. Submitting an annual report to the Governor on the fiscal condition of the government of the Virgin Islands.

5. Preparing such other reports as may be required by the Governor, the Comptroller General of the United States, or the Secretary of the Interior.

The Government Comptroller has transferred all accounting functions formerly carried out by the office of the Virgins Islands auditor to the departments primarily responsible for such activities.

PUERTO RICO RECONSTRUCTION ADMINISTRATION

The Puerto Rico Reconstruction Administration was established by Executive Order 7057, dated May 28, 1935, under authority granted the President in the Emergency Relief Appropriation Act of 1935 (49 Stat. 115), for the purpose of initiating, administering, and supervising a program of approved projects to provide relief and to increase employment in Puerto Rico, with emphasis on rehabilitation of the island's agricultural economy.

During the period 1935 through 1942, the administration's principal programs were rural rehabilitation and electrification, construction of public roads and buildings, and making loans to cooperatives and farmers. Since 1942, its principal activities had been the collection of mortgage installments and rents and repairing and selling rural and urban land and houses.

The act of August 15, 1953 (67 Stat. 584), authorized and directed the Secretary of the Interior to liquidate PRRA within 18 months (by February 15, 1955).

Appropriations from the United States Treasury to PRRA, from inception in 1935, have totaled $69,741,843. As of July 31, 1955, returns to the Treasury by PRRA from all collections, including liquidation, were $11,127,782.

General Accounting Office audits

In 1951, the Department of the Interior requested that comprehensive audit procedures be extended to the operation of the Puerto Rico Reconstruction Administration. In response to this request, the Administration was placed on a comprehensive audit basis, effective July 1, 1951.

The following audit reports have been submitted to the Congress:

Period covered:	*Date submitted*
Fiscal year 1952	June 26, 1953
Fiscal year 1953	Aug. 13, 1954
July 1, 1953, to Feb. 15, 1955	Oct. 31, 1955

General Accounting Office recommendation to the Congress

In its audit report for fiscal year 1952, the General Accounting Office recommended that the Puerto Rico Reconstruction Administration be dissolved and its activities liquidated by other agencies of the Federal or insular government in Puerto Rico. This recommendation was the result of a study which indicated that all of PRRA's activities were generally of the same nature as, and in many cases were duplicated by, other Federal and insular government agencies.

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During July 1953, the Senate and House Committees on Interior and Insular Affairs unanimously recommended enactment of legislation to accomplish an accelerated liquidation of PRRA. The Congress enacted legislation which was approved August 15, 1953 (67 Stat. 584), granting the Secretary of the Interior broad powers to liquidate PRRA within 18 months, including the authority to dispose of its assets upon such terms and at such discounts as the Secretary deemed advantageous to the United States.

Officials of the Department of the Interior estimated that this action would result in an overall saving to the Government of $7 million to $8 million after payment of all expenses of liquidation.

The Secretary of the Interior reported to the Congress on May 20, 1955, that the liquidation of PRRA was completed, and that its functions and activities ceased on February 15, 1955. Liquidation was accomplished by offering large discounts on mortgages, after which the remaining mortgages and real properties were sold to the Commonwealth Government of Puerto Rico and to a sugar cooperative, except for one mortgage which was transferred to the Public Housing Commissioner for collection.

TRUST TERRITORY OF THE PACIFIC ISLANDS

The area designated as the Trust Territory of the Pacific Islands consists of more than 2,000 tiny islands scattered over an area about as large as the United States, yet with a land mass of only about 685 square miles. This area was a former possession of Germany; after World War I it became a Japanese mandate under the League of Nations. After World War II it was placed under United Nations trusteeship with the United States as administering authority.

Administrative responsibility was temporarily assigned to the Secretary of the Navy but, effective July 1, 1951, it was placed in the Secretary of the Interior. Subsequently, most of the Saipan District was returned to naval administration, so that as of June 30, 1954, responsibility for administration of the trust territory was divided. The trusteeship agreement designates the trust territory as a strategic area in accordance with article 82 of the United Nations Charter.

For the portion administered by the Secretary of the Interior through the Office of Territories, the chief executive is the High Commissioner of the Trust Territory of the Pacific Islands, appointed by the President. The High Commissioner's office was located at Honolulu, Hawaii, until October 1954, at which time it was transferred to Guam.

Government operations are financed largely by congressional appropriations, which amounted to $4,300,000 for fiscal year 1954.

General Accounting Office audits

The Department of the Interior Appropriation Acts for 1953 and 1954 (66 Stat. 458 and 67 Stat. 273) provided that the financial transactions of the trust territory be audited by the General Accounting Office, in accordance with the provisions of the Budget and Accounting Act, 1921, as amended (31 U. S. C. 53), and the Accounting and Auditing Act of 1950 (31 U. S. C. 67). Accordingly, the trust territory was placed on a comprehensive audit basis effective July 1, 1952.

The General Accounting Office made an audit for the fiscal years 1953 and 1954, and submitted a report to the Congress on August 23, 1955. In addition, a report on deficiencies and weaknesses in accounting and administrative procedures was submitted to the Deputy High Commissioner, together with recommendations for corrective action.

In a letter commenting on the latter report, the Administrative Assistant Secretary of the Department of the Interior concluded with the following statement:

> The Acting High Commissioner of the trust territory has stated that the work of the General Accounting Office auditors and their report has been very helpful to the trust territory government. He is sincerely hopeful that they may continue to better their operation through the use of future help from the General Accounting Office.

General Accounting Office recommendations to the agency

Approval of changes in the Trust Territory Code by the Secretary of the Interior.—The General Accounting Office recommended that changes in the Code of the Trust Territory of the Pacific Islands should be approved by the Secretary of the Interior before becoming effective. The legislative power of the trust territory is in the High Commissioner, who can make or amend laws by executive decree without review by higher authority. A separate judiciary system responsible to the Secretary of the Interior exists, but it has only limited authority to review laws decreed by the High Commissioner. No action has been taken on the recommendation.

Acquisition of suitable vessels for intradistrict operations.—The trust territory government is committed to improve and develop self-sufficiency of native shipping and training of islanders in the operation of vessels. To carry out this responsibility, and also to provide for district administrative field trips and transportation of trade goods and copra to and from outlying islands, highly complex and expensive-to-operate AKL's (small cargo vessels) have been used. Operation of this type of vessel has cost the trust territory government a considerable sum over the past 3 years. The General Accounting Office recommended that the proper type of vessel be obtained. The auditors have been advised that the Department has plans for a revised shipping program which should reduce costs.

Financial administration of cost contract for operating vessels.—The General Accounting Office recommended that the contracting officer issue instructions as to the types of costs reimbursable under the cost-type contract for the operation of the vessels mentioned in the preceding paragraph and that an audit of the costs be made. This recommendation was adopted.

Revenues from salvage operations.—It was recommended that the High Commissioner establish procedures that will provide reasonable assurance that the trust territory government receives the proper amounts from the salvage and sale of scrap in the area. There were no inspection or other procedures to assure that the proper amounts were received. This recommendation was adopted.

Policies and procedures for claims settlements.—It was recommended that procedures be adopted to determine the amount of land claims and the source of funds for liquidating them. Over 7 years have elapsed since the execution of the trusteeship agreement. How-

ever, claims of Micronesians for use of lands occupied by United States military forces and for administrative service areas, and for accidental destruction of property after assumption of administrative responsibility of the territory, have not been settled. This recommendation was adopted and the Department hoped to start making settlements in 1955.

Training of Micronesians in specific skills required by the trust territory government.—The General Accounting Office suggested that the cost of administering the territory could be reduced by granting a limited number of scholarships to qualified Micronesian students to study, in Honolulu or on the mainland, the specific skills required by the trust territory government.

As a result of this observation, the program of sending students to Honolulu and other areas for training and subsequent employment in the area is being expanded.

Procurement of materials and supplies and accountability for inventories.—To correct deficiencies relating to the procurement of and accountability for materials and supplies, the General Accounting Office recommended that the trust territory give consideration to a planned dispersal and reduction of medical supplies at Truk; transfer of the central warehouse from Truk to Guam, which will fit into the presently existing procurement and transportation pattern of the trust territory; establishment of minimum and maximum stock requirements; consolidation of purchase orders; procurement at Guam and from other trading companies in the area; establishment of quantity accountability; preparation of receiving reports; investigation of damaged and short merchandise; and establishment of dollar accountability at the more important storing and requisitioning centers.

The Department of the Interior has advised the General Accounting Office that a study of the methods and procedures followed at Truk has been improved. After careful consideration a decision was made to continue the center at Truk, at least until July 1, 1956. The Department also advised the General Accounting Office that certain procurement practices and procedures are being revised and efforts are being taken to insure that property accountability is established.

Internal auditing

The trust territory government did not have an internal audit staff. The General Accounting Office recommended that an internal audit staff be established which would not only perform internal audits of the trust territory government, but which would also be capable of making audits of organizations that determine, collect, and remit revenues so as to assure that all revenues due the Government are collected.

The General Accounting Office has been informed that an internal auditor has been appointed and that additional help will be afforded so that the auditor may properly discharge his responsibilities.

ISLAND TRADING COMPANY OF MICRONESIA

On October 27, 1947, the Secretary of the Navy directed the High Commissioner of the trust territory to "take immediate action to organize, under the laws of Guam, a corporation to be known as the Island Trading Company of Micronesia with a paid-in capital of $1

represented by a total of 10 shares of capital stock of no par value", issued in the title of the High Commissioner or the Deputy High Commissioner of the trust territory. The Island Trading Company of Micronesia was incorporated by special proclamation of the Governor of Guam, dated December 8, 1947, by and with the consent of both houses of the Guam Congress. The purpose of the Company was to promote the economic advancement and self-sufficiency of the inhabitants of the trust territory. It was a wholly owned instrumentality of the trust territory. Its principal activity was the purchasing and marketing of copra.

The Company was organized by the High Commissioner contrary to provisions of the Government Corporation Control Act of 1945. Section 304 of that act provides that no corporation is to be created, organized, or acquired by any officer or agency of the Federal Government except by act of Congress specifically authorizing such action. At the time the Company was organized, the Navy Department, which was responsible for the administration of the trust territories prior to July 1, 1951, intended to secure the passage of legislation expressly authorizing and ratifying the operations of the Island Trading Company. On April 20, 1950, the Secretary of Defense forwarded to Congress a draft of proposed legislation to ratify the organization and operations of the Company and to provide for its incorporation. No action was taken by the Congress on the proposed legislation. Administration of the trust territory was transferred from the Navy Department to the Department of the Interior on July 1, 1951. The Department of the Interior did not submit to the Congress any proposed legislation concerning the Company's corporate status.

This committee, in its report on audits of Government corporations (S. Rept. No. 861, 83d Cong., p. 8), pointed up the fact that the Island Trading Company of Micronesia had been established contrary to the provisions of the Government Corporation Control Act, and that the Committees on Appropriations had recommended its dissolution.

The Interior Department Appropriation Act, 1953, provided that the Company should not have succession after December 31, 1953, and that any available funds should be deposited in the Treasury as miscellaneous receipts, unless otherwise specifically provided by law. The termination date was extended to December 31, 1954, by the Interior Department Appropriation Act, 1954.

Each of these appropriation acts provided that the financial transactions of all agencies or instrumentalities established or utilized by the trust territory shall be audited by the General Accounting Office.

On June 13, 1952, the General Accounting Office submitted a report of a survey and review of operations of the Island Trading Company to the Committees on Appropriations. This report was prepared at the request of the House Committee on Appropriations. A report on the audit made pursuant to the appropriation acts was submitted to the Congress on May 10, 1955.

At December 31, 1954, cash available as a result of the cessation of operations amounted to $1,026,165. The cash was not covered into the Treasury as miscellaneous receipts, but was on deposit in an Interior Department suspense account in the Treasury, available for liquidation of obligations but not for other purposes. In addition, maturity

dates on certain notes receivable were extended from December 31, 1954, to July 31, 1955. These measures were taken so that the Department would have an opportunity to seek legislation to authorize the loan of part of the remaining funds to enable private enterprise to render services formerly performed by the company.

In a letter dated March 3, 1955, to the Secretary of the Interior, the Comptroller General stated that the funds may not be properly withheld from the Treasury, but are required to be deposited as miscellaneous receipts at as early a date as practicable. The Department of the Interior and Related Agencies Appropriation Act, 1956, approved June 16, 1955, provided that $1 million was to be transferred from the account of the Island Trading Company of Micronesia on December 31, 1954, to the Trust Territory of the Pacific Islands. Of this amount, $500,000 was made available for the establishment of a revolving fund for loans to locally owned private trading enterprises, to continue during fiscal year 1956. The other $500,000 was used to reduce the appropriation of new moneys to the Trust Territory of the Pacific Islands. On July 9, 1955, the Administrative Assistant Secretary informed the Comptroller General that any funds in excess of $1 million and recoveries on accounts receivable would be deposited to miscellaneous receipts as promptly as possible.

DEPARTMENT OF JUSTICE

The Department of Justice was established by the act of June 22, 1870 (16 Stat. 162; 5 U. S. C. 291), with the Attorney General at its head. Prior to 1870, the Attorney General was a member of the President's Cabinet, but not the head of a department, the office having been created under authority of the act of September 24, 1789, as amended (1 Stat. 92, 16 Stat. 162; 5 U. S. C. 291).

The chief purposes of the Department of Justice are to provide means for the enforcement of the Federal laws, to furnish legal counsel in Federal cases, and to construe the laws under which other departments act. It conducts all suits in the Supreme Court and other courts in which the United States is concerned, supervises the Federal penal institutions, and investigates and detects violations against Federal laws. It represents the Government in legal matters generally, rendering legal advice and opinions, upon request, to the President and to the heads of the executive departments. The Attorney General supervises and directs the activities of the United States district attorneys and marshals in the various judicial districts.

The audits performed by the General Accounting Office are as follows:

Audited on a comprehensive basis

The Federal Prison Industries, Inc., a wholly owned Government corporation functioning within the Department of Justice under the general direction and supervision of the Attorney General, is audited at the site of operations under the provisions of the Government Corporation Control Act (31 U. S. C. 841). Audit reports on the operations of this corporation are submitted annually to the Congress.

Audited at the site

Audits of payments for personal services and reviews of reports submitted by the Department under section 1311 of the Supplemental Appropriation Act, 1955, are made at the site.

Audited on a centralized basis

The audit of receipts and expenditures of all other functions of the Department of Justice except the Office of Alien Property is on a centralized basis. The General Accounting Office does not prepare periodic audit reports on the operations of the Department of Justice (except the Federal Prison Industries, Inc.) for submission to the Congress. Periodic and final certificates of settlement are issued, however, to accountable officers as a result of the audit of documents submitted to the General Accounting Office and the payroll audit at the site.

Other

The activities of the Office of Alien Property are not financed with appropriated funds and no audit of such activities is made by the General Accounting Office. In the opinion of the Comptroller General, specific legislation would be required to permit the General Accounting Office to make such an audit.

DEPARTMENT OF LABOR

The Department of Labor was created by an act of Congress, approved March 4, 1913 (37 Stat. 736; 5 U. S. C. 611). A Bureau of Labor had been created by Congress in 1884 under the Interior Department, and subsequently became the Department of Labor without executive rank, but again returned to bureau status in the Department of Commerce and Labor which was created by act of February 14, 1903 (32 Stat. 827; 5 U. S. C. 591).

The main function of the Department is administering and enforcing statutes concerned with advancing the public interest by promoting the welfare of wage earners of the United States and improving working conditions.

General Accounting Office audits

The General Accounting Office performs an audit of receipts and expenditures, except expenditures for personal services, on a centralized basis. Audits of payments for personal services are made at the site. Other examinations at the site include reviews of reports submitted by the Department under section 1311 of the Supplemental Appropriation Act, 1955.

The General Accounting Office does not prepare periodic audit reports on the operations of the Department of Labor for submission to the Congress. Periodic and final certificates of settlement are issued, however, to accountable officers as a result of the audit of documents submitted to the General Accounting Office and the payroll audit at the site.

POST OFFICE DEPARTMENT

Accounting and auditing prior to enactment of the Post Office Department Financial Control Act of 1950

Prior to the enactment of the Post Office Department Financial Control Act of 1950 (39 U. S. C. 794), all formal accounts of the Department were maintained by the General Accounting Office in Asheville, N. C. All basic post-office records and vouchers were forwarded to Asheville, where a detailed post audit of these vouchers was performed. Also, certain vouchers were audited prior to payment.

The General Accounting Office audit was concerned primarily with the personal accountability of postmasters and other accountable officers. One of the principal objectives was to determine whether the accountable officers had paid, or had certified for payment, any vouchers that were in violation of law, postal regulations, or regulations of a control agency such as the Civil Service Commission or the Bureau of the Budget. Although the General Accounting Office was in possession of vouchers, contracts, payrolls, and other documents, it was not in a position to appraise the overall financial management of the Post Office Department because of the limitations inherent in this type of audit.

Transfer of accounting and internal control functions to the Post Office Department

The Post Office Department Financial Control Act of 1950 placed the responsibility for establishing and maintaining adequate systems of accounting and of internal control over Post Office Department operations, including the preaudit of expenses and internal audit, with the Postmaster General. It required that the accounting system developed by the Post Office Department must be submitted for the approval of the Comptroller General for conformity with the accounting principles and standards prescribed by him. The act also required that, to the fullest extent practicable, all accounts of accountable officers, contracts, vouchers, and other documents should be retained in the Department for subsequent audit by the General Accounting Office and that, in determining the manner and extent of such audit, the Comptroller General should give due regard to the adequacy of the system of accounts and internal control maintained by the Department and to generally accepted principles of auditing.

The 1950 act enabled the General Accounting Office to assume its proper function as an independent auditor of Post Office Department operations.

Application of the comprehensive audit to the Post Office Department

The comprehensive audit was initiated in November 1950, and was concerned initially with a survey or study of the functions and activities of the agency, including the plan of organization, delineation of responsibilities, and policies and procedures established and their application as reflected in the accounting records and financial statements. Also, and to the extent deemed necessary, transactions were examined and other audit techniques applied to the settlement of postmasters' accounts.

In March 1953, the Subcommittee on Postal Operations, House Committee on Post Office and Civil Service, requested representatives of the General Accounting Office to discuss in executive session the progress that had been made under the Post Office Department Financial Control Act of 1950. As a result of this hearing, the subcommittee requested the Comptroller General to furnish a report with recommendations for changes to bring about better operating procedures and economies within the postal service.

The report, dated April 24, 1953 (H. Rept. No. 367, 83d Cong.) contained recommendations designed to improve financial management in the Post Office Department, and directed attention to the fact that the Department's accounting system was neither adequate nor

efficient, and that the minimum requirements of the act had not been met. The committee observed that in the report the General Accounting Office stated that it "encountered a positive resistance to the audit as contemplated under the act" but that the committee understood that this difficulty has been overcome and that the Department was then cooperating with the General Accounting Office. With these recommendations as a basis, a well-conceived plan for developing and installing improvements in financial management was thereafter developed by the Post Office Department. To accomplish this, the Department engaged a firm of public accountants to act as consultants, and asked for and received extensive assistance from the General Accounting Office.

The General Accounting Office submitted to the Congress a report of progress for the period April 25, 1953, through February 28, 1955 (H. Rept. No. 435, 84th Cong.). This report stated that the 36 recommendations made in the previous report had been accepted in principle and expanded by the Department to 160 related projects, and that the General Accounting Office recommendations which had been put into effect had resulted in estimated recurrent annual savings of about $7 million, in addition to providing improved financial procedures and internal control. It was also reported that action on 16 of the recommendations was partly completed. The report points out that, with respect to those recommendations which have been adopted, continuing review should be made to keep abreast of changing conditions and the current needs of management.

A very important accomplishment reported by the General Accounting Office resulted from its review of the operations of 19 large first-class post offices during October, November, and December, 1954. The examination of leave practices of employees in these post offices showed that abuses of leave existed in the granting and taking of sick leave, administrative leave, and leave without pay. The House Committee on Post Office and Civil Service studied the report of the General Accounting Office (H. Rept. 434, 84th Cong.), which contained eight recommendations for corrective action by the Department. At the request of the chairman of the committee, the Bureau of the Budget brought the report to the attention of the heads of all executive agencies on June 23, 1955, (Bureau of the Budget Bulletin No. 55–6), and directed each department and certain agencies to make a comprehensive self-audit of leave administration covering the period July 1 through December 31, 1954. The Bureau was to be advised of their findings and the action taken or proposed to be taken to correct deficiencies.

Subsequent to the General Accounting Office report, a study by the Post Office Department of sick leave taken at 983 of the largest post offices revealed that the upward trend in use of sick leave had halted, and, in September and October 1955, the decrease from the same months in 1954 amounted to 285,000 and 159,000 hours, respectively. On July 5, 1955, the Postmaster General issued a directive to all levels of management for the establishment of a uniform method of controlling the use of sick leave.

The progress made by the Post Office Department, working in close cooperation with the General Accounting Office, in developing improved accounting and internal control over postal financial opera-

tions during the last 3 years has been commendable. Among the major improvements recommended by the General Accounting Office and adopted by the Post Office Department are:

1. Appointment of a controller, as a step in providing for overall management and control of the financial program.
2. Installation of a "home-branch office" system of accounts between Washington headquarters and the regional controller offices.
3. Discontinuation of the practice of certain regional directors in excusing regular employees on local holidays without charge to annual leave in those cases where it was necessary to hire replacements. At the three post offices where this practice was found to exist, it resulted in additional annual operating costs of about $495,000.
4. Installation of a system for the direct deposit of funds by post offices.
5. Simplification of the preparation of post office cash accounts by consolidating separate accounts for postal, money order, postal savings, savings bond and trust funds.
6. Strengthening the examination of revenues from postage meters through the adoption of a punched-card procedure.
7. Installation of a cost system at the mail equipment shops.
8. Reduction in the cost of purchasing postage stamp book covers by eliminating unnecessary printing thereon.
9. Adoption of a punched-card postal savings certificate and compounding of interest paid on deposits.
10. Simplification of the administrative review of international parcel post accounts.
11. Adoption of procedures for the maximum utilization of free transportation provided by law for rail travel by postal employees on official business.
12. Revision of mileage certifications from railroads, resulting in reduced payments for transportation of mails.
13. Legislative authority to pay from receipts claims for (1) money orders over 1 year old, and (2) indemnities for the loss or damage to registered, insured, and c. o. d. mail. This eliminated the need for annual appropriations for paying such claims.
14. Establishment of regional disbursing offices, which will ultimately reduce the number of points at which disbursements are made from a possible 39,000 to 15.
15. Legislative authority to destroy postal savings certificates 6 years after date of payment. About 250 million paid certificates have been or are in the process of being discarded with attendant savings in storage costs.
16. Legislation providing for a reclassification of postal field employees, which will permit the Postmaster General to recruit technically qualified people for technical positions.
17. Legislation providing for a 40-hour workweek and a biweekly pay period for postal field employees, which will (1) result in simplified and more economical payroll procedures, and (2) eliminate many of the accounting and auditing problems caused by the former pay basis.

The committee commends the progress made and the effective working relations between the General Accounting Office and the Post Office

Department in their mutual efforts to promote effective financial management of postal operations. However, the Comptroller General reports that much still remains to be accomplished in this regard and the committee expects that continuing improvements will match the record of the past.

On January 12, 1956, the General Accounting Office submitted another report (B–114874) to the chairman of the Committee on Post Office and Civil Service, House of Representatives, pursuant to the chairman's request. This report shows the action taken on the 36 recommendations made in the April 1953 report on the financial management of the Department and the current status of action taken on these recommendations. It also indicates the major areas of improvement in financial management and those phases still requiring attention.

Major recommendations of the General Accounting Office which are still being considered by the Post Office Department are:

1. Provide for periodic payments to eligible employees under the Federal Employees Uniform Allowance Act (68 Stat. 1114), instead of requiring the submission of evidence of acquisition of individual items of uniform dress. The Department's regulations result in an expensive and unnecessary administrative burden since there are 135,000 employees eligible for uniform allowances.

2. Establish a pay lag for the postal field service that will result in economical processing of payrolls. The 7-day lag established by the Department still requires peak staffing. A pay lag of 10 days would seem to be the minimum needed.

3. The Post Office Department should adopt procedures to assure that payments under special contracts with railroads for transporting mail at rates other than those set by the Interstate Commerce Commission are made in accordance with the terms of the contracts. In addition, periodic reviews should be made to determine whether the contracts continue to be in the best interest of the Department.

4. Distribute all types of accountable paper through "accountable paper supply centers" under the supervision of the regional controller in each of the 15 regional office cities. Under the present system distribution is made through various outlets.

The January 12, 1956, report of the GAO indicated that the Department should direct further attention to the completion of its controllership organization and its internal audit organization, the development of a complete accounting manual, the development of property accounting records, and to other areas for improvement in its financial management.

Internal auditing

When the Post Office Department was placed under comprehensive audit in November 1950, its internal audit function was divided among several bureaus and offices. Believing that the internal audit function is most effectively carried out when it is functionally directed as a single organizational unit, and in consideration of known deficiencies in internal audit coverage under the existing system, the General Accounting Office recommended in its April 1953 report that an internal audit organization be established.

A Division of Internal Audit was established in the Bureau of Accounts (now Bureau of Finance) in June 1953, and a director appointed in March 1954. The Division has responsibility for functional direction of all internal audit operations in the postal establishment. The Division of Internal Audit will prescribe the audit program for the entire postal establishment, but the program for post offices will be executed by the postal inspectors in conjunction with their regularly scheduled visits. Plans were also made to develop programs for and to audit regional controllers' offices, postal transportation offices, supply centers, and other field offices.

It is the view of the General Accounting Office that, if these plans of broad assignment of duties and responsibilities to the Division of Internal Audit are to be of practical use, they must be implemented by a well-conceived plan of operations and a qualified audit staff of sufficient size.

DEPARTMENT OF STATE

The Department of Foreign Affairs, established by an act of Congress approved July 27, 1789 (1 Stat. 28), became the Department of State by an act approved September 15, 1789 (1 Stat. 68). The business of the Department includes advising the President on problems of foreign policy and foreign relations, conducting international negotiations, the promotion of solidarity with other democratic nations, development of policies and programs for American participation in the United Nations and other international organizations, correspondence with the diplomatic and consular representatives of the United States and with the representatives of foreign powers accredited to the United States, and the conduct of the other diplomatic and consular business of the United States.

There have been many statutes enacted in recent years which have expanded the Department's authority greatly. Many different departments and agencies are directly concerned with aspects of the foreign policy of the United States and, consequently, the work of the Department has expanded not only in the direct conduct of foreign relations but also in the coordination of the activities of the other departments and agencies in that field.

The functions of the Department and the Foreign Service are directed by the Secretary of State through the Under Secretary, the Deputy Under Secretary, the Deputy Under Secretary for Administration, and the Deputy Under Secretary for Economic Affairs. The Deputy Under Secretary assists the Secretary and the Under Secretary in coordinating the substantive operations of the Department.

The Office of the Budget under the Assistant Secretary-Controller is responsible for general budgetary matters, the allotment and control of funds, and the overall financial management of the Department. The Office of Finance, also under the Assistant Secretary-Controller, is responsible for the administration and accountability of funds and the administrative examination and certification of accounts. Hence, it is through these two offices that all allotments, receipts, and expenditures of the Department are accounted for, and accounts and supporting records are rendered and made available to the General Accounting Office for audit.

Internal auditing

The Department reports that it has established programs of foreign and domestic inspection. Funds for these programs are included in the budget for fiscal year 1956. No funds are included for an internal audit staff by that name, but the inspection activities encompass many of the functions of internal auditing. However, the Department states that further development of this activity is needed to fully implement the provisions of the Budget and Accounting Procedures Act of 1950.

General Accounting Office audits

On September 12, 1951, the General Accounting Office established an on-site audit group in the Department of State to audit the accounts of the Department and the accounts of agencies for which administrative accounting is performed by the Department of State. These include the Foreign Claims Settlement Commission and the Displaced Persons Commission, the latter in the process of liquidation.

The on-site audit began with the examination of financial transactions and accounts for the fiscal year 1951 and consists of an examination of all types of receipts and disbursements, allotment and budgetary controls, and surveys or reviews of phases of administrative operations relative to the proper administration and control of allotted funds. The on-site location has afforded close liaison serving a valuable need in the development of fiscal procedures within the Department.

In addition, the site audit group has performed examinations of cash reconciliations with disbursing officers and the Treasury, makes examinations to determine that appropriations and limitations are not exceeded, and examines the reports of the Department submitted pursuant to section 1311 of the Supplemental Appropriation Act, 1955.

General Accounting Office notices of exceptions in accountable officers' accounts and inquiries into fiscal questions related to the accounts are directed to the various offices through the Office of Finance and replies are considered after return through that office. Summarizations of exceptions taken in the various accounts are issued to the Office of Finance for each 6 months' period of accounts audited. Special reports have been made as the need arose which have assisted the Department in improving fiscal procedures.

The International Boundary and Water Commission and the International Cooperation Administration (including the Institute of Inter-American Affairs) are semiautonomous in nature and have individual budgetary, fiscal, and financial controls. The audit of these two offices is on a comprehensive basis.

Reorganization of the Passport Office

At the direction of the chairman, the staff of this committee cooperated in facilitating the complete reorganization and modernization of the Passport Office of the Department of State during the closing days of the last session of Congress. It endorsed and encouraged the active cooperation of a number of Federal agencies in carrying out this project, including the General Services Administration, the Bureau of the Budget, the General Accounting Office, and the Civil Service Commission. The General Accounting Office was specifically requested to assist the Director of the Office in establishing

adequate cash accounting and internal control systems within the Passport Office. The results attained under this project are now being incorporated in a special committee report to the Senate.

INTERNATIONAL BOUNDARY AND WATER COMMISSION, UNITED STATES AND MEXICO—UNITED STATES SECTION

The United States Section, International Boundary and Water Commission, United States and Mexico, was created pursuant to the treaty of March 1, 1889 (26 Stat. 1512), between the United States and Mexico. The Commission has jurisdiction to examine and decide questions arising on the fluvial boundary between the two countries growing out of changes in the beds of the boundary streams, works constructed in these streams, or any other cause. The jurisdiction of the Commission was extended to the overland boundary from El Paso, Tex., to the Pacific Ocean by the Water Treaty of February 3, 1944 (59 Stat. 1219).

The United States Section is headed by an Engineer Commissioner who is appointed by and serves at the pleasure of the President. The United States Commissioner is responsible to the Secretary of State in matters of policy. The headquarters office for the United States Section is located in El Paso, Tex., and 8 field and 7 subfield offices have been established along the United States-Mexican border.

The activities of the United States Section comprise primarily investigation, construction, and operation and maintenance of projects for flood control, conservation, storage, and equitable distribution of water, stabilization of the river boundaries, and sanitation. The activities of the United States Section are financed through appropriations from the Treasury. Appropriations amounting to $1,750,000 were received by the section to conduct its activities during fiscal year 1955. Since inception in 1889, Congress has appropriated $79,429,552 (after lapses and transfers) to carry out the activities of the United States Section of the International Boundary and Water Commission. In addition, allotments of $5,834,088 were made from appropriations to the National Industrial Recovery Administration and the Works Progress Administration.

General Accounting Office audits

The United States Section was placed on a site-audit basis beginning with fiscal year 1952. In fiscal year 1952 the United States Section, with the assistance of the Office of Budget and Finance, Department of State, and the General Accounting Office, designed and installed a revised accounting system based on recognized principles of accounting with special emphasis on the accounting requirements for public utilities. A report on review of procedures and internal control for fiscal years 1954 and 1955 was submitted to the Commissioner on September 23, 1955. This report contained recommendations on the following matters:

Transfer of accounting functions from field office to headquarters.—The United States Section should transfer the disbursing, payroll, and accounting functions performed at the Harlingen, Tex., field office to the El Paso headquarters office. Programs handled by the Harlingen field office consist almost entirely of operation and maintenance of completed projects, and the volume of disbursements, pay-

rolls, and accounting transactions does not require that these functions be performed in the field.

Utilization and maintenance of motor vehicles and equipment.—The United States Section should review its requirements for trucks and heavy equipment to establish full utilization. Trucks and items of heavy equipment not essential in carrying out work programs should be declared surplus for disposal or transfer to other Government agencies.

The section should also review vehicle and equipment repair costs to avoid making extensive repairs to vehicles which have deteriorated through long use. Deteriorated vehicles and equipment should be disposed of as excess, or, if essential in carrying out work programs, should be scheduled for replacement at the earliest date possible.

Small purchases.—The United States section should establish imprest cash funds and adopt the use of blanket purchase arrangements with vendors at the El Paso and Harlingen offices to permit more efficient and economical processing of small local purchases. The section should also review the procurement activities of each field office authorized to make open market purchases to determine the feasibility of establishing imprest funds and arranging for blanket purchase agreements with vendors at these locations.

Recovery of general office expenses.—Expenses incurred for general office engineering and administrative services at the El Paso headquarters office should be charged in part to the projects benefiting from such services so as to obtain accurate project costs.

Other administrative or accounting matters.—Other administrative or accounting recommendations made by the General Accounting Office related to need for strengthening procedures for billing, collecting, and accounting for revenues; establishment of adequate administrative controls over warehouse stock and nonexpendable property; establishment of shop order system for vehicle repairs; accounting for depreciation of facilities; recording and distributing clearing account transactions; application of the work-order system; classification of plant in service; accounting for reimbursements and refunds; charging investigation cost to nonreimbursable accounts; and financing construction costs from operation and maintenance appropriations.

The Department of State reported that several of the remedial measures recommended by the General Accounting Office were under consideration or in the process of implementation at the time of audit and that other of the valuable recommendations are now being implemented.

INTERNATIONAL COOPERATION ADMINISTRATION

General background

The International Cooperation Administration (ICA), an agency of the Department of State, is the latest in a succession of agencies established since 1947 to carry out United States nonmilitary assistance to foreign countries under the mutual security program. ICA succeeded the Foreign Operations Administration (FOA), which had been established in 1953 to absorb into a single entity the activities previously administered by the Office of the Director for Mutual Secu-

rity, the Mutual Security Agency (MSA), the Technical Cooperation Administration (TCA), and the Institute of Inter-American Affairs (Institute). MSA, established in 1952, was the successor to the Economic Cooperation Administration (ECA), which was established in 1948 to administer economic assistance to Western European countries under the Marshall plan.

Postwar nonmilitary assistance to foreign countries as currently administered by ICA under the mutual security program began under the Greek-Turkish Assistance Act of 1947 (Public Law 75, 80th Cong.), joint resolution of May 31, 1947 (Public Law 84, 80th Cong.), and the Foreign Aid Act of 1947 (Public Law 389, 80th Cong.). Administration of these statutes was delegated by the President to the Secretary of State.

The first long-range legislation was the Foreign Assistance Act of 1948 (Public Law 472, 80th Cong.). Title I, the Economic Cooperation Act, reconstituted aid to Europe in conformity with the Marshall plan. Title II continued the aid authorized under the Greek-Turkish Assistance Act. Title III, the International Children's Emergency Fund Assistance Act, continued the aid authorized by the joint resolution of 1947. Title IV, the China Aid Act, authorized assistance to China. This act also established the Economic Cooperation Administration to administer these functions.

The Far Eastern Economic Assistance Act of 1950 (Public Law 447, 81st Cong.) authorized aid to the Republic of Korea to be administered by ECA. The agency was also charged with carrying out the India Emergency Food Act of 1951 (Public Law 48, 82d Cong.).

The Foreign Assistance Act of 1950 (Public Law 535, 81st Cong.) extended the aid to Southeastern Asia. Title IV, the Act for International Development, established the technical assistance or point 4 program to assist underdeveloped countries, chiefly in Asia and Africa, to improve their standard of living by technical cooperation and by encouraging the flow of investment capital. The President delegated the implementation of title IV to the Secretary of State. In November 1951 the Technical Cooperation Administration was created as an agency within the State Department to administer this title. The Institute of Inter-American Affairs, which had been operating technical-assistance programs in Latin America for some years, became the Latin American Division of TCA and retained its corporate entity.

The Mutual Security Act of 1951 (Public Law 165, 82d Cong.) consolidated foreign military and nonmilitary assistance into a unified mutual security program to be administered under the general direction, supervision, and coordination of a Director for Mutual Security, responsible directly to the President. The act continued the operation of the respective types of assistance under the several agencies to which they had previously been delegated and under the legislation which had previously authorized them. An Office of the Director for Mutual Security was established as a unit within the Executive Office of the President to exercise the overall responsibilities charged to the Director. Under this same act, ECA was abolished by Executive Order No. 10300 effective December 30, 1951, and was replaced by MSA.

In June 1953, the Congress authorized the transfer of wheat to Pakistan (Public Law 77, 83d Cong.) to meet emergency conditions

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in that country. MSA was designated to administer this program in cooperation with the Commodity Credit Corporation.

At the direction of the chairman, the staff of this committee undertook, in the latter part of 1952, a study of the Hoover Commission recommendations with the objective of effecting a complete reorganization of MSA and other overseas activities. Upon completion of this study, staff recommendations to the committee proposed (S. Rept. No. 4, 83d Cong., pp. 85–91): (1) The abolition of the special representative in Europe; and (2) of the Office of Director of Mutual Security, and the transfer of MSA functions to the Department of State as a semiautonomous component of the Department; (3) vesting in the heads of diplomatic missions of each of the countries participating in the foreign economic and military programs full authority to represent the United States as the sole spokesman for the Government in contracts with representatives of the respective foreign countries; (4) the creation of a Director of Economic Administration within the respective United States embassies; (5) consolidation of embassy, SRE, and MSA staffs under the central administration of the country diplomatic representative; (6) transfer of administrative functions of the military advisory assistance groups abroad to the administrative offices of the head of the diplomatic mission; (7) creation in the Executive Office of the President of an Office of Personnel Management, with control over personnel policies of the United States Civil Service Commission and a proposed Foreign Service Commission; and (8) that each executive department should retain control over its own employees assigned to overseas service, such employees being given Foreign Service classifications on the same basis as employees of the Foreign Service of the Department of State.

Reorganization Plan No. 7 of 1953 established, effective August 1, 1953, the Foreign Operations Administration, to bring together in one agency the direct operation of all nonmilitary assistance activities previously carried on by the several agencies under the authority of the mutual security laws. FOA took over the activities of MSA, TCA, and the Institute, as well as certain special programs carried on by the Department of State. In addition, FOA took over the overall direction, supervision, and coordination of all mutual security programs previously exercised by the Office of the Director for Mutual Security.

Complete jurisdiction over all economic aid programs abroad was vested in the new agency, but jurisdiction over foreign policy determinations in political and diplomatic fields was retained in the Secretary of State. The plan abolished the special representative in Europe. A subsequent Executive order (No. 10476) issued by the President on August 1, 1953, vested in the chiefs of the diplomatic missions in recipient countries general leadership over foreign policy coordination and implementation in the economic, political, and military-aid fields.

The Mutual Security Act of 1954 codified the various laws under which foreign assistance had been authorized and, by repealing such laws, became the current basic law governing foreign aid. The act also called for the abolition of FOA not later than June 30, 1955. Executive Order 10610, effective June 30, 1955, transferred all of the

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functions of FOA to the Department of State and directed that the Secretary of State establish the International Cooperation Administration as a semiautonomous agency within the State Department to exercise the functions previously lodged in FOA. All operating responsibilities previously charged to the Director of FOA for the direct forces support assistance program were transferred to the Secretary of Defense.

Activities

Over the years the scope and character of foreign assistance has been modified by congressional action to fit the changing economic needs in various areas of the world and the security interests of the United States. The bulk of nonmilitary foreign aid funds, which during the early years was channeled to European countries, has for the past few years been allocated to countries in the Middle and Far East, Asia, and the Pacific area.

In a broad sense, nonmilitary foreign assistance consists substantially of (1) financing the import by recipient countries of commodities required originally for postwar economic rehabilitation and stability, and later as a means of budgetary support for defense buildup; (2) technical assistance in the form of advice by technical experts, training, and demonstration in practically all fields of activity necessary to achieve a better standard of living for the peoples of these countries and to develop economic and political stability; and (3) financial assistance to countries directly or through international organizations to assist in meeting emergencies or other conditions arising from present world tensions.

Beginning in fiscal year 1954, technical assistance to underdeveloped countries was supplemented by special economic assistance, later designated as development assistance, to aid in financing the construction or acquisition of facilities, such as dams, industrial plants, and farm equipment, necessary to realize the fruits of technical assistance.

Since the cessation of the Korean hostilities, the Congress has authorized substantial amounts for relief and rehabilitation in Korea. This assistance has been largely in the form of commodities for public consumption and for the repair or construction of industrial projects.

Mutual security legislation since fiscal year 1954 has stipulated that certain amounts of the funds authorized for military and nonmilitary assistance be used to finance the export and sale, for foreign currencies, of United States surplus agricultural commodities, and that the foreign currency proceeds shall be used for the purposes of the Mutual Security Act. The amounts so stipulated were a minimum of $100 million and a maximum of $250 million in 1954, $350 million in 1955, and $300 million in 1956.

Most assistance is implemented through bilateral agreements in various forms between the United States and individual foreign countries. These agreements commit the United States in stated amounts for the financing of projects, the procurement of commodities or services, or similar assistance activities. They also call for certain undertakings by the foreign countries which, in addition to those required by the mutual security legislation as requisites for assistance, include in most cases a measure of joint financing or services in connection with specific types of assistance.

UNIVERSITY OF MICHIGAN LIBRARIES

In general, countries receiving commodity aid have been required to deposit with their governments the equivalent amount thereof in their local currencies, of which a percentage (5 to 10 percent) has been allocated for use by the United States. The remainder, subject to approval by the United States, has been devoted to economic or defense purposes within each recipient country. In technical assistance and development assistance the recipient countries have generally been required to bear a share of the costs of individual programs or projects, depending upon their financial capacity. In several years since 1948, the mutual-security legislation has required a certain percentage of the total aid authorized to be on loan terms.

Commodities and services for economic or defense support and for development assistance are procured either by the recipient countries directly from commercial sources or through the facilities of United States agencies, such as the General Services Administration. Technical assistance is carried out by technicians employed directly by ICA, through other agencies, such as the Department of Agriculture, or Commerce, and through contracts with educational institutions and engineering firms. Overseas missions of ICA located in each recipient country exercise various functions of planning, liaison, administration, and control supplementing functions exercised by the Washington headquarters. For certain types of assistance activities the planning, negotiation, contracting, operation, and administration, including accounting, have been delegated to the missions under the overall supervisory direction of the Washington headquarters.

Accounting

Prior to the formation of FOA in August 1953, each of the agencies carrying on foreign assistance activities had separate accounting systems and separate fiscal policies and procedures. The consolidation of the agencies permitted the integration of many functions under a single set of rules for activities of the same general character. Also, FOA took steps to integrate and standardize administrative and fiscal procedures. In close cooperation with representatives of the General Accounting Office, the agency set up a task force to develop and recommend uniform procedures, particularly for obligating funds. However, the agency had to recognize that the variety of assistance activities, many of which were new, and the divergent political and economic conditions in the countries where the activities are conducted, substantially limit the attainment of uniform administrative and financial methods.

The efforts of the task force resulted in the adoption of a revised integrated accounting plan, effective in fiscal year 1955, for one important segment of mutual-security activities. This segment, known as project-type assistance, represents the furnishing of technical know-how, the training of foreign nationals in technical fields, and the financing of materials, equipment, and outside technical services for specific projects, such as construction of dams, irrigation of farmland, malaria control, and roadbuilding. The plan also has helped to clarify existing criteria for obligating funds and to strengthen accounting and reporting for other mutual-security activities.

Internal auditing

MSA had a small staff for conducting audits of the activities of the Controller's Office and other organizational units in Washington.

It maintained a specialized staff exclusively assigned to the administrative review of the financial aspects of technical assistance and technical and administrative service contracts. It also had a specialized staff for the examination of terms and prices of United States financed commodity shipments to assure compliance with statutory requirements and agency regulations.

MSA had no organized system for field audits of overseas operations. The regional office in Paris inspected certain activities of the MSA missions in Europe. Expenditures by Far East missions were subject to a limited postaudit in Washington.

TCA had no internal audit organization. Fiscal and accounting matters were handled by the Department of State. The Institute of Inter-American Affairs maintained a staff of field auditors for the review of financial operations in Latin American countries. Expenditures incurred in the field were subject to postaudit in Washington.

FOA audits were confined for the most part to audits of fiscal operations in Latin American countries, as previously conducted by the institute. The agency recognized the need for a regional audit program on a worldwide basis and planned to recruit and assign field auditors for the other regions, including Europe, Near East, Africa, South Asia, and the Far East. The scope of the work was to be expanded to include comprehensive reviews of management controls and procedures in all field offices. FOA was partially successful in recruiting the type of personnel needed for this work and ICA is continuing the effort.

The effectiveness of the internal audit organizations has been limited because of a shortage of available manpower and the GAO reports that further recognition could have been given to internal auditing as a useful tool of management, but that the concept of internal auditing has been broadened and worldwide audit programs are being developed. The agency has performed internal audits in the Near and Far East areas.

At present, the ICA internal audit staff is composed of seven auditors. The agency hopes to increase this staff. ICA also maintains a staff in the Washington office to postaudit vouchers, contracts, and prices.

General Accounting Office audits

The General Accounting Office audited the financial transactions of ECA at the agency's central office from the time ECA was established in 1948. Following enactment of the Mutual Security Act of 1951, bringing foreign-assistance activities under the coordination and supervision of a Director for Mutual Security, the Comptroller General, in February 1952, designated all such activities for comprehensive audit. The consolidation, effective August 1, 1953, of all nonmilitary foreign-assistance activity in FOA (now ICA) enabled the General Accounting Office to concentrate its audit of all nonmilitary mutual security activities in terms of a single organizational entity.

The audit of foreign-assistance activities has been a continuous assignment in which audits are made of selected activities or functions either at a given date or for a selected period. The audits are based on data available at the Washington headquarters of the agency, supplemented in some instances by visits to the respective overseas missions of the agency.

European survey

Early in 1952 the General Accounting Office made an exploratory survey of certain activities of the mutual security program in Europe. Its report thereon to the Director in April 1952 called attention to apparent deficiencies in certain areas of operations including end-use inspection of commodity aid, review of the utilization of 90 percent counterpart funds, control of the 10 percent counterpart funds, administrative services, duplication of functions at the office of the special representative and at Washington, and unreasonable lag in construction of facilities for joint use of NATO countries. These observations were subsequently discussed with agency officials at Washington and Paris, who agreed that they warranted further examination.

Review of Technical Cooperation Administration activities

In a report covering the operation of the point 4 program by TCA for the fiscal years 1952 and 1953, submitted to the Director of FOA shortly after TCA, the Institute, and MSA had been merged into FOA, the General Accounting Office stressed certain conditions which warranted corrective action. Among the more significant matters were—

1. Need for long-range program planning and realistic budget estimates.
2. Need for an effective internal organization to properly balance within the Washington organization a functional and regional approach to program administration.
3. Need for reorientation of relationship with other Federal agencies participating in the assistance program with the objective of placing full control and responsibility in FOA.
4. Need for development of more meaningful accounting and reporting procedures.
5. Difficulties in recruiting technical personnel for the field.

The report also called attention to several deficiencies in the procurement of point 4 program materials and to inadequate budgetary and fiscal control of travel costs.

Regarding certain phases of the TCA overseas housing program the General Accounting Office suggested that consideration should be given to having the host governments, as part of their commitments under the assistance agreements, undertake to assure suitable housing for TCA personnel at reasonable rentals.

The report also brought out that the 1952 costs for program direction in the participating countries, amounting to $1,700,000, were paid from program funds whereas such costs had been presented to the congressional committees as administrative expenses and considered as such by the committees in fixing the limitation on expenditures for administrative expenses. Program direction costs for 1953 were also paid from program funds. The effect was to place these costs outside the administrative expense limitation. The General Accounting Office brought this to the attention of agency officials. In the 1954 budget such costs were included in administrative expenses.

FOA officials stated that this report had been very helpful in meeting the operating and fiscal problems of the technical-assistance program. Many of the recommendations were incorporated into the integrated plan of the agency, and improvements in operational and fiscal administration have been noted by the General Accounting Office.

Review of United States assistance program for India

In another report, submitted to the Director of FOA on July 27, 1954, covering the United States assistance program for India during the years 1952 to 1954, the General Accounting Office recommended that FOA make a more specific delineation as to the use of funds appropriated for economic and technical assistance. Under TCA operation of the program in India, the greater part of available funds had been expended for equipment and supplies, which TCA had attempted to justify as being needed for demonstration purposes. After the program had been taken over by FOA, and pursuant to FOA's budget request, the Congress made separate appropriations for special economic assistance and technical assistance. However, most of the funds earmarked for technical assistance were used for the purchase of supplies and equipment beyond what appeared necessary for demonstration purposes. Since the 1955 budget request was similar to that of 1954, the recommendation was made that FOA obtain congressional reaction to this method of operation. The report on the Mutual Security Act of 1954 of the House Committee on Foreign Affairs was very specific on this point, stating that technical-assistance funds be used chiefly to maintain technicians rather than for the purchase of supplies. The agency stated that technical assistance funds for 1955 were used as directed by the committee report, with supplies purchased only where necessary for instruction or demonstration purposes.

The General Accounting Office also recommended a set of integrated ground rules especially tailored to the economic-type program being carried on in India. It was stated that these rules should recognize that United States assistance is an integral part of India's own development program and that control over planning and administration should vest in the Government of India, at the same time recognizing the right of the United States to be assured that the programs receiving its assistance are being properly executed. The General Accounting Office had noted the lack of control by the United States overseas mission over Indian contributions, procurement practices, administrative responsibility, and United States participation in project implementation.

The General Accounting Office also recommended that more specific instructions on procurement procedures be drawn up, in view of the difference between Indian and American procurement practices.

These recommendations were discussed with responsible Washington officials of the agency, and the General Accounting Office has noted some improvement in present procedures.

The auditors also called attention to the fact that projects actually implemented during a given fiscal year are sometimes not those that are presented to the Congress. They cited a railroad-expansion program involving $20 million of United States funds, which had not been included in the budget presentation for 1954. The funds for this program had been obtained by transferring funds earmarked for other programs. This indicated poor program planning or inadequate coordination between the mission and the Indian Government, or both. The auditors stated that the Congress has a right to expect the flexibility of the program to be confined to shifts between and within programs presented to it by the agency, and that any major deviations from presented programs should be brought to the attention of the

interested congressional committees. FOA agreed that these comments were well taken and would serve as a guideline in the future.

The General Accounting Office also pointed to deficiencies in accounting and reporting which do not permit a ready evaluation of the progress of the program. It was noted that allotments of funds for 1952 and 1953 were divided between Washington and the field, resulting in a physical separation of the accounting records. The results of operations were not consolidated in an overall financial report; consequently, the status of various activities was not readily determinable. In 1954, all accounting functions were delegated to the field. Steps were taken by FOA, in cooperation with the General Accounting Office, to draft standardized accounting and reporting instructions designed to eliminate these various deficiencies and facilitate proper financial evaluation of the program.

The auditors also noted that, although the assistance agreements require periodic reports from the Government of India concerning Indian contributions to projects and the status of projects, few reports had been received and these contained a minimum of detail. It was suggested that the United States mission in Indian prevail upon the Indian Government to submit more informative reports promptly.

FOA officials were in general agreement with the findings of the General Accounting Office and stated that the report was a helpful and constructive document in planning future operations.

Review of certain activities of European missions

The General Accounting Office submitted a report to the Controller of FOA on October 6, 1954, on its examination of the records, procedures, and controls maintained by the Controller's office at the missions in Italy, France, Western Germany, and the United Kingdom. The report commented on departures from normal procedures, insufficient end-use inspection of commodity aid, questionable uses of counterpart funds, inadequate reporting, and the quality of certain reports compiled by the Controllers' divisions.

The General Accounting Office has stated that although no direct response was received from the agency on this report, it believes that through subsequent refinements by the agency in its organizational and operating procedures, certain of the conditions outlined in the report have been remedied and others improved.

Review of payments of ocean freight on relief supplies

The General Accounting Office submitted a report to the Director of FOA on February 15, 1955, on its examination of the manner in which FOA was administering the payment of ocean-freight charges on voluntary relief shipments. This is one of the programs authorized by the mutual-security legislation. The examination disclosed that this program was being satisfactorily administered and that certain deficiencies in fiscal control which had previously existed had been corrected by the agency.

Review of productivity program for France

The General Accounting Office submitted a report to the Director of FOA on March 8, 1955, covering a review of the productivity program of the FOA mission to France. This review encompassed a survey of the planning, execution, and control of projects of tech-

nical assistance, principally those undertaken pursuant to section 516 of the Mutual Security Act of 1951, the Benton amendment. The report called attention to certain weaknesses in the planning and control of projects and to the premature obligation of local currency funds in 1953 at a time shortly preceding the date fixed for bringing these funds under congressional control pursuant to section 1415 of the Supplemental Appropriation Act, 1953.

The agency disagreed with the auditors as to the use of local currency funds and in varying degrees to the conclusions drawn on other findings, although it did not contest the facts. The nature of this type of program is such as to allow wide room for differences of opinion. The General Accounting Office believes that by conveying its views on various aspects of the operations of this program to the agency and to the mission in France, the report was helpful to the agency for guidance in future operations.

Review of Pakistan wheat program

This report related to the administration by FOA of the emergency wheat program for Pakistan, authorized by Public Law 77, 83d Congress, 1st session (67 Stat. 80). Since this operation was a one-time undertaking, no recommendations were made to the agency. However, it was felt that the report, which was submitted to the Director of FOA on March 2, 1955, would serve as a helpful guide in future undertakings of this nature. The examination disclosed that (1) there was a considerable lag in the distribution of wheat within Pakistan which, together with other factors, suggested the possibility that more wheat was furnished than was necessary, (2) the FOA field staff in Pakistan did not comply with instructions issued by the Washington office for periodic reporting of the progress and status of specified elements of the program, (3) FOA had not received adequate information concerning deposits of counterpart funds as stipulated in the bilateral agreement, and (4) a large disparity resulted between the amount of local currency realized from the sales of wheat and the amount originally estimated.

Review of Pakistan assistance program

During March, April, and May of 1955, the Permanent Subcommittee on Investigations of the Senate Committee on Government Operations held hearings on FOA's action in selecting a certain bidder for the construction of grain elevators in Pakistan. The Federal Government, through the rejection of the tentatively approved bidder, is reported to have saved approximately $1 million as a result of facts developed at these hearings (S. Rept. No. 1410, 84th Cong.).

A report issued by the General Accounting Office to the Congress on December 27, 1955, covered a review of the nature and administration of the assistance program for Pakistan, including examination of selected major assistance projects of which one—the construction of grain-storage elevators—was the subject of the aforementioned hearings.

The major audit findings brought out in this report were—

1. Delays in program implementation
2. Deficiencies in procurement practices
3. Reprograming of funds committed in 1952 and 1953
4. Lag in foreign currency contributions

5. Lack of information regarding compliance with cooperative agreements
6. Improper designation of aid program

The General Accounting Office believes that the conditions indicated by the above findings derive at least in part from 2 basic factors which have been characteristic of programs in other countries, particularly project type aid in underdeveloped areas, and which it had previously stressed. These two factors are (1) the annual level of aid established for individual countries has been beyond the financial and physical capacity of the agency and the foreign country to get underway in the year for which the funds are appropriated, and (2) the agency, by committing itself to a wide diversity of projects, has so dispersed its efforts as to be unable to administer them effectively. The agency states that these factors are dictated in large measure by international political considerations and that it has no alternative but to initiate projects to the level of aid established and to administer them as efficiently as its facilities and those of the foreign government will permit.

Study of obligating bases and related administrative practices

On June 10, 1955, the General Accounting Office submitted a report to the Congress covering its study of the bases established by FOA and the predecessor agencies for obligating funds appropriated to carry out the various mutual security activities assigned to them and the administrative practices followed in connection therewith.

The report stated that implicit in FOA's broad authority for obligating funds is a heavy responsibility for a high degree of management prudence and control to assure that funds are obligated only under conditions which most closely approach their utilization and which measure as accurately as possible the current amount required. Various instances of significant deficiencies in this area were pointed out. The report recommended that FOA establish effective enforcement procedures, particularly in the following areas:

(1) Plans for execution of assistance undertakings should be developed in sufficient detail so that projects may be started promptly after signing the bilateral agreements on which obligations are recorded.

(2) FOA should maintain adequate administrative control to assure expeditious implementation of projects.

(3) FOA should continually exercise effective control over the progressive utilization of obligated funds so that obligations can be adjusted to current estimated needs and unliquidated amounts no longer needed may be transferred to unobligated status.

The General Accounting Office also recommended that the Congress consider authorization in the Mutual Security Act of a separate contingency fund to the President to finance unforeseeable and emergency activities. These activities had been financed with funds authorized for regularly planned assistance programs. The proposed authorization would lessen and possibly obviate the need for the transfer authority and other broad authority for the use of funds contained in the law, and would facilitate a more orderly planning, programing, and obligation of funds. In its request for mutual security funds for fiscal year 1956 the agency included authority

for the appropriation of a special fund of $100 million to meet unforeseen special situations. The fund was authorized in the Mutual Security Act of 1955 (Public Law 138, 84th Cong.), in the amount requested.

Other audit findings

1. In its audit work during 1953 the General Accounting Office found that there were excessive obligations of funds for technical assistance projects of MSA and an unreasonable delay in closing out these projects. As a result about $6 million was frozen which would have been available for other purposes. This was brought to the attention of the agency, which took steps to remedy the condition.

2. In 1955 the General Accounting Office auditors disclosed an action by FOA in reprograming a refund of $2.9 million which FOA recovered in 1954 from the Government of Austria because of the improper diversion of commodities furnished to that country from 1953 funds. It was determined that the refund was not available for reprograming purposes during the fiscal year 1954 and should have been deposited to the credit of unavailable surplus. FOA accordingly was requested to take prompt administrative action to transfer $2.9 million of the unobligated balance of 1954 appropriations to unavailable surplus. The agency complied with this request.

DEPARTMENT OF THE TREASURY

The Treasury Department was created by the act of September 2, 1789 (5 U. S. C. 241). This act (5 U. S. C. 242) established the Office of the Secretary of the Treasury who was charged with preparing plans for the improvement and management of the revenue and for the support of the public credit; superintending the collection of revenue; prescribing the forms of keeping and rendering all public accounts and making returns; granting, under limitations, all warrants for moneys to be issued from the Treasury in pursuance of appropriations by law; reporting to the branches of the Legislature; and generally performing all services relating to the finances of the Government.

Increasing complexities in the country's financial structure and activities over the years have resulted in revisions and amendments to the act which have placed additional functions under the Treasury Department and have led to the establishment of numerous bureaus, divisions, and offices.

The following summary shows the principal organizational components in the Department of the Treasury and the nature of the General Accounting Office audit now being made.

Audited on a comprehensive basis

Fiscal Service
- Office of the Treasurer of the United States
- Bureau of the Public Debt
- Bureau of Accounts

Bureau of Customs
Bureau of Engraving and Printing
Bureau of Narcotics

UNIVERSITY OF MICHIGAN LIBRARIES

Bureau of the Mint
Office of Production and Defense Lending
Federal Facilities Corporation
Reconstruction Finance Corporation
Defense Lending Division
United States Coast Guard

Audited on a centralized basis

Office of the Secretary
United States Savings Bonds Division
United States Secret Service
Internal Revenue Service

Not audited

Office of the Comptroller of the Currency
United States Exchange Stabilization Fund

FISCAL SERVICE

A principal suborganization in the Treasury is the Fiscal Service, which was created by the President's Reorganization Plan III, dated April 2, 1940, under the provisions of the Reorganization Act of 1939 (5 U. S. C. 133–133r). Although created in 1940, the principal functions of the Fiscal Service have been carried on by predecessor organizations for many years. Under the Fiscal Assistant Secretary, it now consists of the Office of the Treasurer of the United States, the Bureau of the Public Debt, and the Bureau of Accounts.

The Office of the Treasurer of the United States was originally established in 1789 by the same act which created the Treasury Department (31 U. S. C. 141). The Treasurer's Office acts as the banking facility for most of the Government's activities. It is charged with the receipt, custody, and disbursement of most public moneys. It also engages in other closely related activities, principally: Redeeming Federal Reserve and national bank currency; issuing and redeeming other currency and the coin of the United States; paying principal and interest on certain public-debt obligations and on obligations of various Government instrumentalities and the Philippine Islands; keeping custody of securities and other items deposited as collateral or for safekeeping by Government agencies and the public; and preparing the Daily Statement of the United States Treasury. In carrying out its custodial functions the Office of the Treasurer makes extensive use of the Bureau of the Mint in the Treasury Department, the Federal Reserve banks and branches, and many other private banking institutions located within and outside the United States. The management of the Office of the Treasurer is vested in the Treasurer of the United States who is appointed by the President, by and with the advice and consent of the Senate.

The Bureau of the Public Debt, succeeding the Public Debt Service, was established as part of the Fiscal Service effective in 1940. The Bureau is engaged principally in performing the administrative and accounting work involved in the issuance, servicing, and retirement of Government securities and in the conduct of transactions in the

securities of the insular governments and Government-owned corporations for which the Treasury acts as agent. The management of the Bureau is vested in a Commissioner who is appointed by the Secretary of the Treasury and reports to the Fiscal Assistant Secretary of the Treasury.

The Bureau of Accounts, succeeding the Office of the Commissioner of Accounts and Deposits, was also established in 1940. The Bureau's main functions include the maintenance of the Government's central accounting records relating to receipts, appropriations, and expenditures; the disbursement of the moneys of the executive branch of the Government (except for the military services and certain other organizations); the handling of the investment accounts of the Government and loans to Government agencies; the participation for the Treasury Department in the joint program to improve accounting in the Federal Government; and the administration over matters relating to the designation and control of commercial banks acting as Government depositaries. The management of the Bureau is vested in a commissioner who is appointed by the Secretary of the Treasury and reports to the Fiscal Assistant Secretary of the Treasury.

General Accounting Office audits

The Office of the Treasurer was assigned for audit on a comprehensive basis effective June 30, 1951. The audits of the Bureau of the Public Debt and the Bureau of Accounts were put on a comprehensive basis effective July 1, 1954. These audits were preceded by a survey of the activities of the Fiscal Service made by the General Accounting Office in 1950 and 1951 under the joint program to improve accounting in the Federal Government.

This survey work was an outgrowth of the survey being conducted at that time by the Comptroller General of the organization and operations of the General Accounting Office with the objective of eliminating unnecessary work and improving the quality and value of the work performed. Because of the close relationship that existed between many operations of the General Accounting Office and the Treasury Department it soon became obvious that a full knowledge of the fiscal procedures of the Treasury Department was necessary in order to realize the full potentialities of the General Accounting Office survey. For this reason arrangements were made with the Treasury Department for General Accounting Office representatives to make a survey of the Fiscal Service. One survey report relating to the issuance, redemption, and destruction of paper currency was submitted to the Treasury in April 1952, and another survey report on public-debt operations was submitted to the Treasury in April 1953.

The following audit reports on the Office of the Treasurer of the United States have been submitted to the Congress by the General Accounting Office.

Period covered:	*Date submitted*
June 21, 1949, to June 30, 1951	June 8, 1953
1952 and 1953	June 14, 1954
1954	June 6, 1955

No overall reports on the audits of the Bureau of the Public Debt and the Bureau of Accounts have as yet been submitted to the Congress. However, the General Accounting Office has prepared two reports dealing with certain aspects of the Treasury Department operations

relating to the public debt and the handling of public funds. The first report of this type was submitted on March 24, 1954, pursuant to a request of the Subcommittee on Independent Offices, Committee on Appropriations, House of Representatives. On the assumption that a similar report might be of interest the following year, a second report with more current data was submitted to the subcommittee on February 28, 1955.

In addition, the General Accounting Office has submitted several reports to Treasury officials containing recommendations designed to improve and simplify the operations of the Bureau of the Public Debt, improve the controls over compensation paid to banks for fiscal services, and other matters. A report on audit of the German, Austrian, and Hungarian special deposit accounts kept in the Bureau of Accounts covering the period April 6, 1928, to June 30, 1954, was submitted to the Secretary of the Treasury on June 24, 1955. Comments on the more significant audit findings included in the various reports follow.

General Accounting Office recommendations to the Congress

Audit reports of the Office of the Treasurer of the United States have disclosed that the Treasury maintains balances of public funds in commercial banks without charging the banks interest for use of the money. The banks are not permitted by law to pay interest on funds deposited in these accounts. However, the banks do perform services and incur costs for the Government for which they receive no compensation. Such services include the sale and issuance of United States savings bonds, the distribution of announcements and receipt of subscriptions for other Government securities, and the handling of withholding and social-security taxes remitted by employers. The General Accounting Office audit reports have recommended that the Congress consider the desirability of amending the present laws to permit the Treasury to charge the banks interest on funds deposited for the account of the Treasurer of the United States after allowing credit to the banks for services performed for the Government for which the banks are not otherwise compensated.

The General Accounting Office also reported that the Treasury placed balances in banks to compensate them for such services as maintaining accounts for the Treasurer and other Government officials, cashing Government checks, and providing facilities and services in foreign countries and at armed-services installations in the United States. Generally these balances are invested in special public-debt securities, and the interest received by the banks is compensation for the services rendered. The General Accounting Office recommendation on this point is that the Congress consider whether the Secretary of the Treasury should continue to finance the cost of fiscal services in the present manner instead of obtaining direct appropriations for such purposes. At the request of the House Committee on Appropriations, its Surveys and Investigations Staff conducted a study of the problems of compensating commercial banks for services rendered. In its report of February 3, 1956, on the Treasury and Post Office Departments, and the Tax Court of the United States Appropriation Bill, 1957 (H. Rept. No. 1743, 84th Cong.), the House Committee on Appropriations stated that—

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the Committee is of the opinion that the use of a permanent indefinite appropriation for the payment of what are essentially current operating expenses borders on a violation of principle—

and directed the Secretary of the Treasury to conduct an examination into the entire subject matter and report on his findings by no later than December 31, 1956.

The General Accounting Office also recommended for consideration by the Congress the propriety of expenditures by the Armed Forces and civilian agencies in furnishing quarters, equipment, guards, and other services for banking facilities free of charge.

General Accounting Office recommendations to the Treasury Department

The General Accounting Office has made numerous recommendations to the Treasury Department designed to simplify and improve various operations in the fiscal service. The more important of these recommendations have been as follows:

1. Simplify currency redemption and operation procedures by (*a*) permitting Federal Reserve banks and branches to verify and destroy all currency redeemed in the course of their operations, (*b*) limit the verification of currency to be destroyed to a test count instead of a 100-percent count in the Treasury Department, and (*c*) discontinue the practice of cutting redeemed currency in half and shipping, handling, and destroying each half separately.
2. Discontinue examination of redeemed public-debt securities in the Office of the Treasurer since the operation was being performed in the Bureau of the Public Debt.
3. Include a proper share of administrative overhead in the costs recoverable from the Federal Reserve banks for verifying and destroying Federal Reserve currency.
4. Count retired United States savings stamps on a test basis in lieu of a 100-percent verification.

The Treasury Department has adopted the last three recommendations and the first one insofar as it pertains to United States currency. The savings resulting from recommendations so far adopted are estimated to exceed $500,000 annually. Certain survey recommendations, initially rejected by the Department, are being reviewed by the General Accounting Office during its current audit work in order to determine their possible application under present operating conditions. The rejected recommendations cover principally the following areas:

1. Final examination of unissued United States savings bonds.
2. Alphabetical and numerical sorting of savings bonds registration stubs.
3. Examination of redeemed and unissued interest coupons.
4. Disposition of retired and spoiled savings bonds.

The Treasury, after full consideration of the possibility of extending decentralized verification and destruction to include Federal Reserve notes, does not agree with the suggestion of the Comptroller General that Federal Reserve banks should be authorized to redeem their own Federal Reserve notes. Also, the Treasury is not in favor of redeeming Federal Reserve currency without a full count of notes involved. The practice of cutting redeemed currency in half and shipping each half separately to Washington for destruction has been followed as an economy and security measure. The suggestion to ship

currency to Washington in whole-note form fails to take into consideration that the currency in such form, even though it has been perforated with large holes, would, on the basis of preliminary legal study by the Office of the General Counsel of the Treasury, have to be redeemed for full value if it should be lost or stolen while in the course of shipment and come into the hands of innocent holders for value.

The General Accounting Office recommendations have covered accounting as well as operating matters. In its survey report relating to public debt operations the General Accounting Office recommended that the single entry accounts being kept by the Bureau of the Public Debt be replaced by a complete double entry set of accounting records to be integrated into the overall accounting plan for central fiscal operations. In March 1953 the Fiscal Assistant Secretary established a joint committee composed of representatives of the Treasury Department and the General Accounting Office to develop more fully the basic outline of principles and objectives for such a system.

The committee issued a preliminary report in June 1954. On the basis of this report, certain policy questions relative to the general structure of the system and its relationship with the accounting of the Treasurer of the United States and the Federal Reserve banks were resolved. The Bureau of the Public Debt then took over the responsibility for, and is presently engaged in, developing the many details of the system, including the utilization of more fully mechanized procedures. The General Accounting Office is cooperating with the Bureau of the Public Debt and the Treasury Department in this work.

Internal auditing

Based on a recommendation of the General Accounting Office, the Office of the Treasurer appointed an internal auditor in 1953 and issued regulations for the guidance of an internal audit staff. The present staff is still too small to accomplish the objectives of an effective internal audit program. The Department of the Treasury reports that, since rendition of the last General Accounting Office audit report, covering the period ended June 30, 1954, the Treasurer's office has made considerable progress in expanding its internal audit staff, and that further expansion will be undertaken as funds and experienced personnel become available.

In a survey report the General Accounting Office made several recommendations designed to strengthen the effectiveness of the internal auditing in the Bureau of the Public Debt. Action has been taken by the Bureau to broaden the scope and objectives of the internal audit program and to transfer certain audit functions relating to activities of other bureaus to the organizations being audited. The possibility of making further improvements in internal auditing is currently under study by the General Accounting Office.

BUREAU OF CUSTOMS

Although the Bureau of Customs as such was not created until 1927, its principal functions have been carried on since before the creation of the Treasury Department.

Three of the first five laws passed by the first session of Congress were concerned with customs matters. The act of July 4, 1789 (1 Stat. 24), imposed duties on imports into the United States; the act of

July 20, 1789 (1 Stat. 27), imposed a duty on the tonnage of vessels entering ports of the country; and the act of July 31, 1789 (1 Stat. 29), established a Customs Service to collect the duties imposed by law on the tonnage of vessels and on goods imported into the United States.

Soon after the establishment of the Customs Service, the act of September 2, 1789 (1 Stat. 65), creating the Treasury Department gave the Secretary of the Treasury the duty of superintending "the collection of the revenue," and the Customs Service became a part of the Treasury Department at that time. In 1927 the Customs Service was abolished, and the Bureau of Customs as it exists today was established.

One of the principal functions of the Bureau of Customs has always been the assessment and collection of import duties, and incident to this, the prevention of smuggling. The Bureau cooperates with other Government agencies in enforcing the laws relating to articles brought into the United States, administers and enforces various navigation laws, and enforces regulations of other Government agencies relating to exports.

The management of the Bureau of Customs is vested in the Commissioner of Customs who reports to an Assistant Secretary of the Treasury.

During the 80th Congress, the Committee on Government Operations (then the Committee on Expenditures in the Executive Departments) conducted a study into the operations of the Bureau of Customs. Following hearings, the committee recommended that a thorough inquiry be made into the Bureau's activities, and the scope of its operations. On the committee's recommendation the Committee on Appropriations provided $100,000 for an independent management survey. Of 175 recommendations made by the management consultants approximately 100 were adopted. This resulted in estimated savings approximating $500,000 annually, on a recurring basis, and vastly improved organization, as well as increased efficiency and service to the public (S. Doc. 4, 81st Cong.).

General Accounting Office audits

The General Accounting Office has been making site audits of the financial transactions of the collectors of customs for many years. Effective January 1, 1952, the Bureau of Customs was placed on a comprehensive audit basis. Numerous reports on specific audit findings have been issued to the Commissioner of Customs by the General Accounting Office since that date. In addition, on October 19, 1952, the Comptroller General submitted a special report to the Congress on the subject of the importation of wheat classified for customs purposes as unfit for human consumption.

Importation of wheat classified as unfit for human consumption.—The Comptroller General's special report on this subject disclosed that unprecedentedly large quantities of wheat classified as unfit for human consumption had been imported from Canada, that substantial quantities were processed into flour for human consumption, and that improper subsidy payments had been made by the Commodity Credit Corporation when some of this wheat was exported under the International Wheat Agreement. These transactions constituted a circumvention of import quota restrictions and resulted in unnecessary costs and the loss of revenue to the Government.

UNIVERSITY OF MICHIGAN LIBRARIES

As a result of these disclosures, the Senate Committee on Agriculture and Forestry held hearings in 1953 on the subject and recommended that the Bureau of Customs take steps to close the legal loopholes which had permitted the abuses. The Bureau reports that it has taken such action in accordance with the recommendation as was possible under existing law, and that a pending bill, S. 1714, would close the existing legal loopholes, if enacted into law. Investigations made by the Department of Agriculture pursuant to committee recommendations have resulted in a number of indictments and convictions. To March 15, 1955, fines of $122,500 have been collected from offenders, and several indictments are still pending. The Government has also received refunds of about $460,000 and escrow deposits of $515,000 from exporters who had received subsidy payments on exportations of Canadian wheat.

General Accounting Office recommendations to the Commissioner of Customs

The General Accounting Office has made about 100 recommendations to the Commissioner of Customs in reports on the headquarters office and the collection districts. The recommendations were designed principally to achieve reductions in costs, improve operating and accounting controls and records, speed up collection of duties and fines, and simplify operations. About half of these recommendations have been adopted; some have been rejected; and a number are still under consideration. Some of the main recommendations under consideration involve:

1. The consolidation of some of the collection districts.
2. The recovery of administrative expenses incidental to warehouse operations through charges to importers.
3. The reduction of reviews by appraisers of merchandise entries covering unconditionally free (requiring no duty) and specific rate (requiring only a simple calculation of duty) items to a test basis, and the elimination of duplicate reviews by collectors.
4. The reduction in the number of reviews made of formal entries of imported merchandise.
5. The proposal of legislation to the Congress which will allow the charging of fees for admeasuring and documenting vessels.
6. The revision of accounting procedures in order to provide the necessary controls for limiting obligations and expenditures of funds for enforcement of the export control program.
7. The revision of the accounting system for revenues and the simplification of procedures for reconciling collections with central Treasury records.

Regarding "the recovery of administrative expenses incidental to warehouse operations through charges to importers," the Department of the Treasury advised the Director of Audits under date of August 15, 1955, that, after due consideration of all the facts developed in its survey, additional charges should not be assessed against warehouse operators or importers exercising warehouse privileges. No further action is contemplated by the Bureau at this time.

Regarding the reduction of reviews by appraisers of merchandise entries covering unconditionally free and specific rate items to a test

basis, and the elimination of duplicate reviews by collectors, the Department of the Treasury advised the Director of Audits in letters of June 2 and September 7, 1955, of its inability to permit appraisers to "spot check" invoices of free and specific-duty merchandise, and that no further action is contemplated by the Bureau at this time.

Internal auditing

Internal-audit functions are performed by the staffs of several different divisions of the Bureau headquarters office and by various comptrollers' offices in the field. The General Accounting Office believes that internal auditing in the Bureau is not fully effective under this arrangement because the various staffs lack independence, perform duplicative work, and have scopes of audit which are too limited.

The General Accounting Office has recommended to the Bureau that a servicewide internal-audit organization be established consolidating in a single staff all audit functions now being carried on by field auditors and management inspectors. Under this plan, the audit staff would have greater audit responsibilities, would be more independent, would perform more work at the site of operations, and would reduce the amount of duplicated checking of import entries.

The Department reports that the internal audit functions of the Bureau of Customs are of a comprehensive nature, but are divided between people who perform strictly fiscal audit and others who perform the operations audit, and that the requirements of management in the Customs Service would not be adequately served, at this time, by placing the responsibility in one unit for the audit of all activities of the Bureau.

BUREAU OF ENGRAVING AND PRINTING

The Bureau of Engraving and Printing is a manufacturing establishment engaged principally in the design, engraving, and printing of paper money, public debt securities, postage and revenue stamps, and other forms of engraved documents. These products are produced for various Government departments and independent agencies, the Board of Governors of the Federal Reserve System, and insular possessions of the United States. Although the principal activities of the Bureau have been specifically authorized by the Congress, there is no act specifically establishing the Bureau or providing for the appointment of its officers. The earliest legislative reference to the Bureau as an entity was in the appropriation act of June 20, 1874 (18 Stat. 85, 110). Appropriations for engraving and printing work had previously been made to the Secretary of the Treasury without recognition of the Bureau as an entity. The management of the Bureau is vested in a director who is appointed by the Secretary of the Treasury and reports to the Administrative Assistant Secretary of the Treasury.

After the Congress approved the Budget and Accounting Procedures Act of 1950, the Committee on Government Operations reported special legislation providing for a business-type budget and a revolving-fund method of financing for the operations of the Bureau. The bill, which was approved by the Congress (Public Law 656, 81st Cong.), provided a new method of budgeting, financing, accounting, and audit

for the Bureau in line with the policies and objectives of the joint accounting program of the Treasury Department, Bureau of the Budget, and the General Accounting Office (S. Rept. 1932, 81st Cong., S. Rept. 1, 82d Cong.). The facts developed in the survey by these three agencies, upon which the legislation was based, indicated that the industrial nature of the Bureau's operations and its relationship with other agencies made it well suited to business-type procedures and to the working-capital-fund method of financing, as approved by the Congress.

Before July 1, 1951, approximately two-thirds of the Bureau's operations were financed from appropriations made to the Bureau; the remainder was financed from funds received from the Board of Governors of the Federal Reserve System and from appropriations made to various requisitioning agencies. On July 1, 1951, the operations of the Bureau were put on a completely reimbursable basis with the establishment of the Bureau of Engraving and Printing fund by the act of August 4, 1950 (64 Stat. 408), referred to in the preceding paragraph.

As a part of the joint program to improve accounting in the Federal Government, the Bureau of Engraving and Printing in cooperation with the General Accounting Office and the Bureau of Accounts in the Treasury Department installed, effective July 1, 1951, an accrual accounting system appropriate to the revolving-fund type of financing, as required by section 5 of the act of August 4, 1950. The principles and standards of the new accounting system were formally approved by the Comptroller General on July 9, 1952.

General Accounting Office audits

The General Accounting Office has been performing comprehensive audits of the Bureau of Engraving and Printing since 1951 following passage of the act of August 4, 1950, which provided for audits of the financial transactions, accounts, and reports of the Bureau of Engraving and Printing fund on an annual basis. The General Accounting Office has submitted the following audit reports to the Congress.

Fiscal year:	*Date submitted*
1951 and 1952	June 19, 1953
1953	July 1, 1954
1954	Dec. 31, 1954

In addition, reports on certain audit findings have been submitted by letters to Bureau management; other findings have been reported informally through discussions with Bureau and Treasury Department officials.

General Accounting Office recommendations

The audits of the Bureau have included reviews of the effectiveness of the new accounting system in operation and related administrative and operating practices. Audit findings have disclosed the need for improved management controls and more effective operating procedures in certain areas. Audit recommendations made by the General Accounting Office and adopted by the Bureau have resulted in improvements in—

1. Control over cash transactions.
2. Physical and accounting controls over inventories.
3. Control and accounting for fixed assets.
4. Cost accounting procedures and reports.
5. Purchasing and contracting practices.

A cooperative approach has been followed in the solution of many of the problems disclosed during the audits. During the examination for the fiscal year 1953, for example, the auditors noted certain areas where changes and refinements in the Bureau's cost-accounting system appeared desirable. The areas involved improvements in the method of distributing labor and overhead costs to the products in order to facilitate subsequent analyses of these costs and to more quickly report costs to the level of management responsible for their control. In October 1953, a joint committee, representing the Accounting Systems Division of the Bureau of Accounts in the Treasury Department and the Accounting Systems Division of the General Accounting Office, was formed to review these areas with the Bureau of Engraving and Printing. The committee issued a report on April 9, 1954, and effective July 1, 1954, the Bureau installed many of the committee's recommendations designed to expedite the preparation of cost statements, revise the number and contents of cost reports, and simplify the cost-accounting methods and procedures.

Inventories and fixed assets (exclusive of land and buildings) of the Bureau were capitalized on July 1, 1951, as part of the Bureau of Engraving and Printing fund. Numerous discrepancies in the original amounts capitalized were noted by the General Accounting Office auditors. As a result of recommendations made to Bureau management, a physical inventory of equipment and supplies was taken by the Bureau during fiscal year 1953. This inventory brought under accounting control $162,000 of assets not previously recognized in the accounts.

Each audit has included reviews of various phases of Bureau operations for the purpose of appraising the work performed in relation to the costs involved. The General Accounting Office examination for the fiscal year 1953 disclosed the possibility of reduced production costs if some of the explanatory matter printed on postage-stamp book covers were eliminated. When this was brought to the attention of the Post Office Department, new specifications were established eliminating the printed matter on the inside of the back covers with resulting savings of about $20,000 a year.

During fiscal year 1952 the auditors made comparative studies of the cost of printing disbursing officers' paper checks and the cost of tabulating card checks. The studies were designed to aid in the promotion of the maximum use of the less expensive tabulating card checks, a project being carried on by the joint program to improve accounting in the Federal Government.

During the audit for the fiscal year 1954, the General Accounting Office noted the possibility of savings through a reduction in the number of employees engaged in preparing Bureau payrolls. Action taken by the Bureau following the auditors' inquiries into this matter has resulted in a decrease of about $28,000 a year in personnel costs. An additional opportunity for savings was noted in connection with the practice of providing, at considerable cost, free guided public tours of the Bureau. The General Accounting Office has recommended that consideration be given to charging visitors a nominal fee in order to defray the cost of this service. The Treasury Department has this recommendation under consideration.

The Department of the Treasury reports that the question of providing free guided public tours of the Bureau of Engraving and

Printing has been referred to the Bureau of the Budget for its views on the governmentwide aspects of the problem.

Internal auditing

In the fiscal year 1952 the Bureau established an internal audit program which provides for continuous audits of the accounts, records, and transactions of the Bureau and the reporting of findings and recommendations to the Director. Despite staffing difficulties, the internal audit staff has provided Bureau management with effective reviews of many phases of Bureau operations, and the adoption of internal audit recommendations has resulted in simplified procedures and records, strengthened internal controls, and reduced operating costs. The work done by the Bureau's internal auditors has been of value to the auditors of the General Accounting Office.

BUREAU OF NARCOTICS

The Bureau of Narcotics was created by the act of June 14, 1930 (5 U. S. C. 282–282a). It is charged with the investigation, detection, and prevention of violations of the Federal narcotic and marihuana laws. It is also required by law to cooperate with the States in suppressing illegal narcotic traffic in the United States and to cooperate with the Department of State in discharging the international obligations of the United States relating to the control over the production and use of narcotic drugs. In carrying out these responsibilities, the Bureau engages in three principal activities:

1. Apprehension of Federal narcotic and marihuana law violators.
2. Control of the importation, manufacture, and distribution of narcotic drugs and marihuana.
3. Custody and disposition of confiscated and surrendered narcotic drugs and marihuana.

The management of the Bureau of Narcotics is vested in the Commissioner of Narcotics, who is appointed by the President, by and with the consent of the Senate.

General Accounting Office audits

The Bureau of Narcotics has been audited by the General Accounting Office on a comprehensive basis since 1951. The following audit reports have been submitted to the Congress:

Fiscal year:	*Date submitted*
1951 and 1952	Sept. 29 1953
1953	June 11, 1954
1954	Mar. 3, 1955

General Accounting Office recommendations

The principal recommendations made in the General Accounting Office audit reports were as follows:

1. Reduce the amount of time spent by narcotic agents on routine clerical duties by streamlining reporting procedures and hiring clerk-typists for transcribing purposes.
2. Amend present regulations to require that persons registered under the narcotic laws surrendering drugs for disposal send them directly to the Drugs Disposal Committee in Washington instead of to a district office. This would reduce shipping and checking costs and improve control over the drugs.

3. Have seized and purchased drugs sent directly to the Drugs Disposal Committee from the Internal Revenue Service laboratories instead of having them returned to district offices first.

4. Hire a competent administrative officer having an accounting background and office management background as a step in overcoming accounting and fiscal deficiencies.

In the audit report to the Congress for the fiscal year 1953, the General Accounting Office recommended that the limitation of $1,000 on the value of seized conveyances disposed of through summary forfeiture proceedings be raised. In the Customs Simplification Act of 1954 (68 Stat. 1136), approved September 1, 1954, the Congress raised the limitation from $1,000 to $2,500.

Internal auditing

The General Accounting Office reported that the Bureau of Narcotics did not have an internal audit staff, but that plans for an internal audit program were under study by the management. The Department reports that, subsequent to the release of the last General Accounting Office audit report, the Bureau of Narcotics has established an internal audit policy, which calls for an internal audit of all operations on an annual basis.

BUREAU OF THE MINT

The Mint of the United States was established by act of April 2, 1792 (1 Stat. 246). The Bureau of the Mint was established by the act of February 12, 1873 (31 U. S. C. 251–273).

The principal activities of the Bureau of the Mint include the production and distribution of coin; the custody, processing, and movement of bullion; the administration of regulations issued under the Gold Reserve Act of 1934 and section 5 (b) of the act of October 6, 1917, as amended, including the issuance and denial of licenses, the purchase of gold, and the sale of gold bullion for industrial use; and the administration of regulations concerning newly mined domestic silver.

The management of the Bureau is vested in a director who is appointed by the President, by and with the advice and consent of the Senate.

The Bureau of the Mint was assigned for audit on a comprehensive basis effective July 1, 1955. No audit reports have been issued by the General Accounting Office to the Congress or to the agency to date.

As part of the current audit, representatives of the General Accounting Office observed the work of the settlement committees composed of mint employees, at the mints in Denver, Philadelphia, and San Francisco, the assay office in New York, and the depositories in Fort Knox and West Point. The purpose of these settlements was to verify the existence of coins and bullion on hand at June 30, 1955, and to review the controls over these assets. The General Accounting Office found the controls to be adequate. Similar settlements from 1952 to 1954 were observed by the General Accounting Office auditors in connection with the audits of the Office of the Treasurer of the United States for whose account the monetary assets are held.

UNITED STATES COAST GUARD

The United States Coast Guard was established by the Congress in 1915 by consolidating the Lifesaving Service and the Revenue Cutter Service of the Treasury Department (38 Stat. 800). It became the successor to the Lighthouse Service of the Department of Commerce in 1939 and to the Bureau of Marine Inspection and Navigation of the same department in 1942.

The Coast Guard is a safety and law-enforcement agency of the Treasury Department and a military service which operates as a part of the Navy upon the declaration of war or when the President directs. Its mission is to protect and preserve life and property at sea, promote the safety of maritime and air commerce, enforce Federal maritime laws, and maintain a state of military readiness for service as a part of the Navy.

The Coast Guard organization consists of headquarters, Washington, D. C., 12 district offices located within the United States, Alaska, and Hawaii; and headquarters units for specific services, located principally within the United States.

The operations of the Coast Guard are financed from funds appropriated by the Congress. Certain activities are conducted through statutory revolving funds—viz, furnishing certain supplies, and industrial operations performed at the Coast Guard yard; these funds are replenished from appropriated funds at the time stock is issued or work is undertaken.

New accounting system

In conjunction with the joint program for improving accounting in the Federal Government, the Coast Guard effected an internal reorganization establishing an Office of the Comptroller and, with the assistance and cooperation of the General Accounting Office and the Treasury Department, began to develop in October 1949 a new accounting system which became operative on a servicewide basis in May 1951. The new accounting system, approved formally by the Comptroller General on December 29, 1951, and from which the first financial report was prepared for the month of August 1951, provides for the integration of the accrual basis of accounting with budgetary processes and the development of operating costs of individual facilities and units. The need for effective internal control was recognized through the procedures provided under the new accounting system and the establishment of an internal audit staff.

The General Accounting Office notes that the Coast Guard has made commendable progress in the development and improvement of the accounting, reporting, and internal control of its operations; however, various elements of each of these functions have not yet been completed and others are still being refined in accordance with the principles and objectives of the joint accounting improvement program.

Internal auditing

An internal audit organization was established in the Office of the Comptroller in May 1951; some internal audit functions had previously been performed by military inspectors and others. The internal audits are performed at the site of principal units.

The Coast Guard's internal auditing covers the examination of fiscal accounts, other than military pay records, and review of fiscal pro-

cedures and compliance with such procedures. Examination of compliance with regulations in nonaccounting areas is the responsibility of the Inspector General, who maintains liaison with the Comptroller through the interchange of inspection and audit reports. Other matters of a specialized nature are examined by boards of officers convened for that purpose.

The Coast Guard discontinued its administrative audit of military pay and allowances effective January 1, 1951, principally because this audit was considered a duplication of the audit by the General Accounting Office. The basic internal audit policy of the Coast Guard also excluded any audit of military pay and allowances. Following recommendations on several occasions by the General Accounting Office, the Coast Guard agreed to include the post audit of military pay and allowances within the scope of its internal audit function. Procedures to carry out this new audit function are currently being developed.

The internal audit organization in the Coast Guard is still in the process of developing and refining its auditing procedures and techniques. Turnover in personnel and the difficulty in obtaining qualified replacements are impeding the progress of the program. However, the General Accounting Office believes that the organization has demonstrated its effectiveness and usefulness to management.

General Accounting Office audits

Prior to the institution of the comprehensive audit in the Coast Guard, all vouchers, contracts, schedules, accounts current, and supporting documents, with the exception of civilian and military pay records, were submitted directly to the General Accounting Office for centralized audit. The audit of civilian pay was conducted periodically at the site of the various locations and the audit of all military pay records was conducted at Coast Guard Headquarters.

Recognizing that accounting and internal procedures of an agency are the basic points for effective control of the Government's financial operations, the Secretary of the Treasury requested on August 30, 1949, that the Comptroller General initiate a comprehensive audit in the Coast Guard to review the effectiveness of the accounting and internal procedures. In reply, the Comptroller General stated that the conversion to a comprehensive audit at the Coast Guard would be synchronized with the installation of the new accounting system. During the installation of the new accounting system, surveys of the activities, organization, policies, and procedures were conducted at headquarters and selected field units to determine the adequacy of the internal controls of the new accounting system and to ascertain that the Coast Guard was carrying out only those activities or programs authorized by the Congress. On the basis of these surveys and upon completion of the conversion to the new accounting system, a comprehensive audit was made on a servicewide basis for fiscal year 1952 and for succeeding fiscal years. Audit reports were submitted to the Congress on November 12, 1954, and October 31, 1955.

General Accounting Office recommendations to the Congress

In its report of November 12, 1954, the General Accounting Office recommended to the Congress that inventories of materials and supplies acquired with annual appropriations and through the supply

fund be consolidated for better control and supply management and in order that appropriation requests may correspond more closely with supply requirements for usage in the same year. The Coast Guard is in the process of consolidating all supply operations into a single system for purposes of financing and intends to request legislation to finalize the consolidation under the supply fund.

The General Accounting Office also recommended that funds appropriated for operations and maintenance of the Coast Guard not be available to finance projects identical or similar to those for which funds are appropriated separately under the acquisition, construction, and improvement program.

The Department reports that the Coast Guard feels that it now has a reasonable dividing line between projects financed from operations and maintenance funds and those financed for acquisition, construction, and improvement funds, but that it has under consideration clarification of the guidelines used to identify projects of a capital improvement nature.

In its report of October 31, 1955, the General Accounting Office recommended that the Congress extend the merchant marine inspection laws to watercraft not presently subject to inspection under these laws and that fees be assessed on boatowners to offset the cost of the extended inspection. It was stated that this would promote greater safety at sea and thereby reduce expenditures now incurred for search and rescue activities and marine casualty investigations. Legislation to extend these laws and to embody recommendations of the Coast Guard was introduced in the 84th Congress as H. R. 5570.

The General Accounting Office also recommended the transfer to the Panama Canal Company of seven aids to navigation located in and at the approaches to the Canal Zone. These aids are now maintained by the Coast Guard and could be maintained more economically by the Company. Legislation authorizing this transfer was introduced in the 84th Congress as H. R. 4652.

General Accounting Office recommendations to the agency

The first report also contained recommendations to the agency, the more significant of which and their current status as reported by the General Accounting Office are summarized below:

1. More extensive utilization of civilian personnel in lieu of military in order to realize substantial savings and build a more stable organization.

The Coast Guard reports that it accepts the basic concept of this recommendation, that the utilization of civilian personnel in lieu of military in certain types of Coast Guard "jobs" is clearly indicated in the total interests of stability, efficiency, and economy and has generally followed this principle in its staffing policies and practices. However, the Coast Guard does not agree with the specific terms of this recommendation, either in respect to the number of "jobs" considered susceptible for conversion from military to civilian, or the indication of substantial savings advanced in the audit report. The Coast Guard reports that it is presently reexamining into this particular matter in connection with a major restudy in the areas of job classification and evaluation, personnel utilization, and work measure-

ment, and that this study may lead to a more extensive utilization of civilian personnel in certain type work areas in the Coast Guard.

2. Improved techniques of supply management.

The General Accounting Office has noted a general improvement in the arrangement and segregation of stock and in inventory controls and procedures, but reported that the Coast Guard has not yet developed a fully effective system for the control of stock purchased with appropriated funds. Nearly all stock is under financial control, and a more vigorous disposal program for surplus, obsolete, and unusable items has been instituted.

3. Better utilization of financial data at various levels of management through more meaningful reporting.

The Coast Guard is in the process of improving its reporting system along certain lines and is including some of the General Accounting Office suggestions.

4. The establishment of adequate controls of nonexpendable property.

It is understood that steps are being taken to bring real property under accounting control. While this is a move in the right direction, real property constitutes only a relatively small segment of all nonexpendable property. The Coast Guard has initiated a program for establishing quantitative unit control over other nonexpendable property.

5. More realistic budgeting of operating requirements and favorable consideration by the Bureau of the Budget of the proposed revision in the budget format developed by the Coast Guard.

Progress is being made toward budgeting future requirements on the basis of actual prior expenditures taken from the accounting records.

The Coast Guard, in connection with the budget for fiscal year 1955, presented its revised format to the Congress along with a budget prepared in the same form as in prior years and used the revised format for justification of the budget for fiscal year 1956.

In its report of October 31, 1955, the General Accounting Office recommended to the agency:

1. A study by the Coast Guard of the activities of vessels, aircraft, and shore facilities aimed at better utilization of these facilities. The General Accounting Office examination indicated the possibility that certain facilities could be deactivated or redeployed with no adverse effect upon the performance of required functions and with consequent economies in operating costs.

2. Merger of the 11th and 12th Coast Guard Districts based at Long Beach and San Francisco, respectively, to simplify the Coast Guard organization and realize savings in overhead costs.

3. Consider charges for certain services performed primarily for the benefit of individuals or private entities, to offset in whole or in part the cost of such services.

4. Consider relocation of supply depots at certain locations to Navy supply depots in the same general area, thereby reducing the cost of supply operations and the investment of funds required to maintain supply inventories.

On the recommendation of the General Accounting Office, the Coast Guard relocated two of its supply depots to Navy facilities at an esti-

mated annual savings of $167,000, and on its own initiative is affecting a third relocation estimated to save an additional $300,000 annually. Another monetary advantage of these relocations is that the investment in inventory required to supply consuming units of the Coast Guard should in due time be significantly reduced.

In its examination of commuted ration mess operations the General Accounting Office found that allowances for commuted rations were in excess of actual requirements and that sizable amounts of excess funds had accumulated in the district mess fund bank accounts. Under the procedures then applicable to such operations these funds were not readily available for other uses. The auditors advocated revisions which would provide stronger controls over these operations. The adoption by the Coast Guard of these revisions enabled the return of more than $183,000 to the Treasury in fiscal year 1954.

A General Accounting Office survey of the operations at the aircraft repair and supply base and at the adjacent air station disclosed opportunities for economies and increased efficiency in several operational and administrative activities. Its report thereon to the Coast Guard resulted in the relocation of shipping and receiving facilities at the base and in the consolidation of the separate maintenance operations of each unit.

The auditors observed certain practices in 1954 relative to travel and per diem of military and civilian personnel which required correction or clarification. The Coast Guard has instituted action to adopt suggestions by the auditors.

In May 1955, the General Accounting Office sent a report to the Coast Guard on its review of costs at bases and depots performing industrial activities, pointing out certain administrative weaknesses which distort the costs of industrial and operational activities at these units. The report expanded on conditions disclosed in a previous examination. The situation is currently being considered by the Coast Guard assisted by the Accounting Systems Division of the General Accounting Office.

The General Accounting Office audits of military pay and allowances have disclosed overpayments from which recoveries totaling about $260,000 for the 4 years ended June 30, 1955, have been made. The General Accounting Office states that it has forwarded to the Coast Guard periodically reports analyzing its findings and suggesting corrections of deficiencies which appeared to cause the overpayments. As an outgrowth of discussions with the auditors, the Coast Guard is strengthening its internal control over military pay and allowances which approximate 60 percent of total operating expenses, through the adoption of effective procedures covering allotments, accrued leave, and related matters. Controls should be further strengthened when the recently adopted plan of including military pay and allowances in the internal audit function is put into operation.

OTHER TREASURY DEPARTMENT ACTIVITIES

The financial transactions of the following bureaus in the Department of the Treasury are still audited centrally in the General Ac-

counting Office on the basis of documents submitted evidencing receipts and expenditures:

Office of the Secretary
Internal Revenue Service
United States Savings Bonds Division
United States Secret Service

Expenditures of these activities for personal services, however, are audited at the site by General Accounting Office auditors.

The Office of the Comptroller of the Currency is organizationally a part of the Department of the Treasury. However, its activities are financed by assessments on national banks and member banks of the Federal Reserve System. The law (12 U. S. C. 481) provides that such funds shall not be construed to be Government funds or appropriated moneys and hence no audit thereof is made by the General Accounting Office.

INDEPENDENT AGENCIES

ATOMIC ENERGY COMMISSION

From the inception of the atomic energy program, the General Accounting Office has made site audits of the transactions of the Government agency responsible for the program—first the Manhattan Engineering District (MED) and later its successor, the Atomic Energy Commission (AEC). Until the adoption of the comprehensive audit, these audits were confined to examinations of vouchers, contracts, and other related fiscal documents, all of which were kept in the custody of GAO at the MED or AEC sites of operations. Beginning with fiscal year 1952 for the Washington office, and with fiscal year 1953 for all other locations, the comprehensive audit approach was adopted and all records were retained by AEC or its contractors.

Manhattan Engineering District operations

MED operated through contractors who conducted their operations generally in Government-owned plants or laboratories. Expenditures were made at five locations, Oak Ridge, Tenn.; Los Alamos, N. Mex.; Richland, Wash.; Chicago, Ill.; and New York, N. Y. Most of the expenditures were made at Oak Ridge, the MED headquarters. Operations were also conducted at other smaller offices; however, the expenses of these offices were paid by the above installations.

GAO had security-cleared personnel at the locations where expenditures were made. The GAO audit work consisted primarily of determining the legality and propriety of expenditures, although limited tests were made of some phases of the accounting and operating procedures.

Atomic Energy Commission operations

The Atomic Energy Act, which created AEC, was approved on August 1, 1946. Although the newly appointed Commission held its first meeting on November 13, 1946, MED continued to operate until an orderly transfer of its affairs to AEC could be arranged. At midnight on December 31, 1946, this transfer became effective by virtue

of Executive Order No. 9816. AEC has continued to operate through contractors.

It was soon determined that MED's recordkeeping methods and procedures were inadequate to provide the new agency with the current financial data needed for management purposes and for reports to the Congress. In the latter part of 1948 AEC established an integrated records system for its major cost-type contractors. Each integrated contractor maintains a complete set of records for his atomic energy work, which records are separate from those maintained for his normal commercial activity. These records are tied into AEC records through control accounts. AEC obtains a consolidated balance sheet and statement of operations by merging the records of its integrated contractors with its own records.

Although the contractors maintained complete sets of records, the vouchers accounting for their expenditures were still submitted to GAO for audit. This procedure continued in effect until fiscal year 1953 when GAO adopted the comprehensive audit approach for the entire AEC operation.

The audit of MED required GAO personnel at only 5 locations; however, because of the expansion in the AEC operations, the audit of AEC now entails work at over 100 locations, including the AEC headquarters office in Washington, D. C., 10 operations offices, 17 area or field offices, and numerous contractor plants at diverse locations. One measure of the expansion in the AEC operations is that during fiscal year 1948, its first full year of operations, its cash expenditures were less than $500 million, whereas for the 4 fiscal years ended June 30, 1955, the average rate of cash expenditures was about $1.8 billion annually.

General Accounting Office comprehensive audit

Since approximately 95 percent of AEC's funds are spent through cost-type contractors, the first major effort under the comprehensive audit was a survey of AEC's contracting and procurement policies and practices. This survey embraced both prime contracts and subcontracts, and included a review of AEC control over the purchasing activities of its cost-type contractors. The survey disclosed that while the Commission's expressed procurement policies were generally sound, in many cases the policies had not been followed. The report contained numerous recommendations designed to tighten important contracting procedures. Most of these recommendations have been adopted.

Following are some of the significant audit matters developed during the relatively short period that the comprehensive audit approach has been in effect.

In April 1954 the GAO brought to the attention of a subcommittee of the Joint Committee on Atomic Energy the use of negotiated subcontracts which in fact amounted to cost-plus-a-percentage-of-cost contracts. The AEC issued instructions immediately emphasizing the prohibition against any arrangement which might be tantamount to cost-plus-a-percentage-of-cost-contracting.

Based on audit findings the personnel in a large division of the Commission's Washington office was reduced from 264 to 230 with a resulting annual saving of about $180,000. Personnel in the salary administration and control department of one of the Commission's

largest contractors was reduced from 11 to 4, with annual savings of about $40,000, after GAO questioned the need for the department in view of the abolition of wage and salary controls by Executive Order 10434.

During the audit of one of AEC's large prime contractors, it was observed that a purchasing office was being maintained at Chicago, Ill., and that warehousing and accounting functions were being performed in Los Angeles, Calif. These operations duplicated operations being performed at Los Alamos, N. Mex. This was brought to the attention of the Commission with a recommendation that the functions be consolidated at Los Alamos to eliminate the added costs resulting from the maintenance of separate offices. As a result, all accounting functions were consolidated at Los Alamos beginning July 1, 1954, and the Chicago purchasing office was closed. This is expected to reduce costs about $200,000 annually.

As part of the comprehensive audit, GAO reviewed AEC's large contracts for electric power. Based on the results of the review, it was recommended that the metering and billing procedures with respect to one of the contracts be strengthened; that AEC attempt to negotiate a lower interim power rate from another contractor; and that internal procedures and controls be established consistent with customary procedures of the electric utility industry. Generally, the Commission and its contractors have given effective consideration to all of these suggestions.

During fiscal year 1955, arrangements were worked out with AEC for commercial freight and express charges paid by and reimbursed to contractors for a 6-month period under cost reimbursement-type contracts to be audited centrally by rate technicians in the GAO. In the course of the fiscal year these carrier bills were examined and overcharges in the amount of about $47,000 were disclosed.

A significant part of the GAO audit during the last 3 years has been done at the specific request of committees of the Congress. Some of this work is discussed below.

At the request of the task force of the Independent Offices Subcommittee of the House Committee on Appropriations, the GAO auditors furnished information pertaining to the AEC's budget request for 1955. This information was useful in supporting a reduction of $106 million recommended by the task force.

The Joint Committee on Atomic Energy adopted all of the provisions that GAO suggested be incorporated in the Atomic Energy Act of 1954. Generally these provisions were designed to strengthen congressional control of the Commission's activities.

At the request of the Joint Committee on Atomic Energy, the GAO furnished a report on the proposed Dixon-Yates electric power contract. This resulted in changes being made in the contract to satisfy certain basic objections raised by GAO.

Atomic Energy Commission's internal audit

Before GAO comprehensive audit, AEC's internal audit consisted of an examination of vouchers amplified by a review of the postings to books of account and a verification of the financial statements. The internal audit did not provide for appraisals of the internal controls of the integrated contractors, or evaluations of the procedures in effect to determine that they resulted in efficient and economical opera-

tions. Consequently, it was desirable for AEC to convert to the comprehensive audit basis to enable GAO to make the maximum use of the AEC audit work. After determining that the work of the internal auditors is reliable, GAO is able to reduce the scope of its verification tests. The AEC expanded its internal audit approach after training auditors in the new concepts, which broadly speaking are—

(1) To appraise the system to determine that it provides good internal control, as good systems will result in efficient and economical operations;

(2) To determine that prescribed policies are being correctly interpreted;

(3) To determine that changes in operating conditions have not made the system cumbersome, obsolete, or ineffective; and

(4) To determine that the system provides a means of taking prompt corrective action when breakdowns occur.

The AEC audit is constantly improving. At one operations office the GAO is reducing the size of its staff because of the high quality of work of the AEC internal audit and the contractor's internal audit.

Agency comments

The following comments on the GAO reports, as above outlined, were submitted to the chairman of this committee by the Chairman of the AEC on February 3, 1956:

> This report fairly recounts the major matters brought to our attention currently in the course of the General Accounting Office audits over the past several years. As the report indicates, we have taken appropriate remedial action in each instance. It is gratifying that this report recognizes our continuing efforts to strengthen our own internal auditing program.

CIVIL AERONAUTICS BOARD

The Civil Aeronautics Board is an independent regulatory agency established June 30, 1940, pursuant to Reorganization Plans III and IV of 1940. It succeeded to certain functions and powers of the Civil Aeronautics Authority, which was created by the Civil Aeronautics Act of 1938 (49 U. S. C. 401). Its functions deal primarily with regulation of the economic aspects of the United States air carrier operations, and are of a rulemaking or adjudicative character.

The Board has been given statutory responsibility for such specific functions as granting and denying certificates of public convenience and necessity, fixing air mail compensation, formulating or approving air transportation rates and rate practices, preventing unfair competitive methods between carriers, reviewing business relationships among carriers, promulgating air safety rules and standards, and investigating accidents involving civil aircraft.

The act vested the management of the Board in five members appointed by the President and confirmed by the Senate. Members are appointed for a term of 6 years and may be reappointed; not more than 3 may be from the same political party. One of the members is designated annually by the President to act as chairman and another as vice chairman.

Under the provisions of Reorganization Plan No. 13 of 1950, administrative responsibility for the operations of CAB were vested in the Chairman, by transferring all executive functions to the Chairman and authorizing him to redelegate these functions to officials, em-

ployees, and staff units of the Board. The plan did not affect the quasi-judicial functions of CAB and made no change in the substantive statutes governing its operations.

A significant change in the Board's duties and functions was brought about by Reorganization Plan 10 of 1953. This plan, effective October 1, 1953, transferred to the Board, from the Postmaster General, that portion of the airmail payment function which related to subsidy assistance. It did not, however, disturb the power of the Board to establish a single overall mail rate comprising both service and subsidy pay.

Service mail pay is designed to represent a reasonable charge for transporting the mail and such payments are made by the Post Office Department. The act provides for a single mail rate, including subsidy, considering among other factors—

> the need of each such air carrier for compensation for the transportation of mail sufficient to insure the performance of such service, and, together with all other revenue of the air carrier, to enable such air carrier under honest, economical, and efficient management, to maintain and continue the development of air transportation to the extent and of the character and quality required for the commerce of the United States, the postal service, and the national defense (52 Stat. 998, 49 U. S. C. 486).

Subsidy payments are made by the Board; the amounts to be paid are determined after deducting service mail payments made by the Post Office Department.

Committee study of CAB operations

The chairman of the Committee on Government Operations instructed the staff, early in December 1955, to make a complete review of the operations of the Civil Aeronautics Board (and of other regulatory commissions including the ICC, FCC, FPC, and FTC), in order to develop pertinent facts relative to reported serious backlogs that have accumulated in the disposition of cases pending before these agencies. The staff study will also be directed toward developing information relative to all phases of the Board's activities. A proposed committee report is now being drafted setting forth the facts developed, for filing in the Senate, with recommendations as to appropriate administrative or legislative action that may be indicated as needed to improve the administration and operations of the Board.

General Accounting Office audits

During the past years the Congress has shown considerable interest in the air carrier subsidy question. In view of this interest, and the transfer of functions under Reorganization Plan 10 of 1953, in which large amounts of Federal funds are expended by the Board in subsidy assistance, the Comptroller General, on July 26, 1954, assigned the Civil Aeronautics Board for comprehensive audit. The General Accounting Office review has been directed principally at the Board's method of administering section 406 of the Civil Aeronautics Act, under which vast sums of money have been paid to air carriers in the form of service mail pay and subsidies. The first report on audit has not as yet been completed, but it is expected to be available in the near future.

During the past year, the General Accounting Office has prepared much information in response to correspondence initiated by Members of the House and the Senate on matters pertaining to the activities of

the Board. Also, conferences were held with the Senate Committee on Interstate and Foreign Commerce to discuss preliminary audit findings as well as recommendations for proposed legislation to amend the Civil Aeronautics Act of 1938, as amended. Bills S. 308 (January 11, 1955) and S. 1119 (February 18, 1955), introduced in the 1st session of the 84th Congress, include the basic principles set forth in many of the recommendations. On April 27, 1955, the General Accounting Office submitted a report to the chairman of the Senate Committee on Interstate and Foreign Commerce containing comments on these and other bills. Testimony regarding pending bills was also given by representatives of the General Accounting Office before the committee on April 28, 1955. (The views of the CAB on S. 308 and S. 1119 appear in a statement filed with the Senate Committee on Interstate and Foreign Commerce on May 25, 1955.)

Some of the principal matters contained in the General Accounting Office report of April 27, 1955, are set forth in the following paragraphs.

General Accounting Office recommendations

Legal separation of subsidy from mail rates.—Under the basic legislation in 1938, subsidies became available through mail rates to certificated carriers of air mail. At that time the air-mail pay was a substantial part of the total revenues of air carriers, but in recent years it has represented only a small part of total revenues. The General Accounting Office considers that the minor part played by air-mail revenues of carriers does not now justify the identification of subsidy solely with the carriage of air mail. It has recommended that the payment of subsidies be legally separated from mail pay, and that the eligibility status of an air carrier for subsidies be determined on the basis of essential air transportation rather than being predicated on carriage of air mail.

The Board favors legislation which would separate subsidy from service mail pay and which would also provide for subsidy to be determined as such rather than being identified with a rate for the carriage of air mail.

Subsidies under contracts.—The General Accounting Office considers that the establishment of a subsidy as a rate determined in advance is not satisfactory because it hinges upon the demonstration of the carrier's need (as specified by the statute) which cannot be accurately determined in advance. In its opinion, the advance estimates for such factors as passenger, mail, and other revenue, operating costs, income-tax rates, and the capital employed in the business are subject to so many contingencies that they do not furnish a satisfactory basis on which to base the Government's obligation and payment for subsidies. It has recommended that subsidy amounts be determined under contracts subject to annual determinations after the fact.

It was also considered that it would be appropriate to establish a subsidy administrator who would be responsible to the Chairman of the Board, and who would undertake the administrative responsibility for the subsidy contracts.

The Board does not concur in the proposal for determining subsidy under contracts or the proposal for establishment of a subsidy ad-

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ministrator. The Board is of the view that subsidy should continue to be determined in accordance with existing procedure, but that the Government should be in a position to recapture excess profits accruing to a carrier during a closed subsidy rate period.

Duration of subsidy.—The basic legislation does not establish a pattern for the Board to follow for the eventual elimination of subsidies, and all certificated air-mail carriers remain eligible for subsidy support whether or not they are currently receiving subsidy.

The greatly increased volume of passenger and other traffic of the air carriers in recent years and other factors had permitted 9 of the 13 domestic trunklines to achieve self-sufficiency by the end of the 1955 fiscal year. The General Accounting Office considers that the continuing eligibility of the self-sufficient lines to seek resumed subsidy may retard the long-term progress of the industry and that the Government should not be committed to furnish subsidy indefinitely merely because a route certificate remains in force. It recommended legislation that would give sufficient flexibility to withdraw subsidy support where it is no longer warranted in the national interest and to make other adjustments in subsidy programs.

The GAO reports that local-service carriers have no apparent opportunity to achieve self-sufficiency, and that, in recent years, those carriers have received a large part of the subsidies. The General Accounting Office held that continued eligibility for subsidy should be governed by the national interest in the continued development of air commerce.

The General Accounting Office also recommended that the Board should (1) expedite a program adjustment in the route structures and certificates of the local service carriers to provide the maximum opportunity to improve their economic position within the general scope of their intended type of operation, (2) amend the routes of such carriers to eliminate points which have demonstrated an inadequate traffic potential to justify air service, and (3) encourage the development of improved route systems through mergers of local and trunk carriers, or of local carriers. It was believed that with those adjustments, the carriers should be required to meet a definite schedule for an orderly phased elimination of subsidy support, and if any local service carrier does not continue to make significant progress toward self-sufficiency, the carrier's authority should be terminated.

The Board believes that subsidy is developmental in nature and concurs in the view that the Civil Aeronautics Act should be amended with respect to the question of under what circumstances a carrier is eligible to subsidy as a matter of right.

With respect to the statements under this heading regarding local service carriers, the Board pointed out that it should be noted that, during the calendar year 1955, it had completed the permanent certification of local service carriers pursuant to legislation enacted in May 1955. Also during the year the Board initiated a broad program for the complete review of the route structures of local service carriers with a view to strengthening those carriers and improving service to the smaller communities.

Establishment of civil penalties for violations of the Board's economic regulations.—Certain carriers have failed to meet the date for filing prescribed reports, and others have been continually at variance with the reporting requirements of the Board's economic regulations.

The Board has not had the power to impose civil penalties for such violations and the General Accounting Office has recommended that the Board be granted the necessary powers to enable it to impose such penalties as are now employed in other Federal regulatory fields.

The Board strongly urges that legislation be enacted which will authorize the Board to impose civil penalties for violation of the economic provisions of the Civil Aeronautics Act of 1938, as amended, and stated that it has recommended such legislation since 1949.

Government employees' use of overseas United States airlines.—Government employes traveling by air on official business overseas are not required to go on United States airlines. It is obvious that any revenue lost to carriers may increase their subsidy requirements. The General Accounting Office has recommended that legislation be considered to prevent the possible diversion of Government travel to foreign air carriers. There is a similar provision in the Merchant Marine Act, 1936.

The Board concurs in the recommendation that legislation be considered to prevent the possible diversion of Government travel to foreign air carriers, and is of the view that wherever possible Govenment employees traveling by air on official business overseas should utilize United States flag carriers.

Other observations

Need for more effective carrier audits.—The survey made by the General Accounting Office disclosed that the scope of the audits conducted by the Board's staff had not kept pace with the rapid growth in size and complexity of the air transport industry. It was recommended that the scope of the Board's audits be expanded considerably and that its audit staff be increased accordingly. The Board received funds in its 1956 appropriation to initiate this recommendation.

The Board is proceeding with a program for increasing not only the scope but also the frequency of field audits of air carriers.

Competition by military airlines.—The Department of Defense is operating independent military air transportation services in direct competition with certificated international, overseas, and domestic air carriers, despite the fact that the Department has frequently expressed to the Board its need for the continuation and expansion of commercial air service to many parts of the world.

In December 1954 the Department of Defense began transferring overseas military mail to commercial carriers. The General Accounting Office is unaware of any similar plan to transfer passengers and cargo not directly related to military requirements, and believes that there might be a significant reduction in subsidies if the available traffic now carried by military airlines were transferred where possible to United States certificated commercial air carriers.

The Board concurs in the view expressed by the General Accounting Office.

CIVIL SERVICE COMMISSION

CIVIL SERVICE RETIREMENT AND DISABILITY FUND

The civil service retirement and disability fund was created August 1, 1920, for the purpose of furnishing retirement benefits to employees who become superannuated or incapacitated in the civil service of the United States.

Since September 1, 1934, the overall administration of the fund has been the responsibility of the United States Civil Service Commission, pursuant to Executive Orders 6670 and 6731 of April 7 and June 5, 1934. The Commission also administers other retirement systems for the payment of annuities to (1) certain citizens of the United States who were employed in a civilian capacity for 3 or more years in or about the construction of the Panama Canal during the period May 4, 1904, to March 31, 1914, or their undivorced widows, and (2) widows of certain Lighthouse Service employees.

While the United States Civil Service Commission has the overall responsibility for administering the fund, related responsibilities are imposed upon the various employing agencies, the Secretary of the Treasury, and an independent Board of Actuaries.

The Commission maintains the records for separated employees, and provides a counseling service for them or their survivors. The employing agencies maintain the records pertaining to current employment and provide active employees with an advisory and counseling service.

The Secretary of the Treasury is responsible for investing in interest-bearing securities of the United States such portions of the fund as are not immediately required for annuities, refunds, and allowances.

The Board of Actuaries, an independent body, established by law, with organizational headquarters in New York City, is composed of two professional actuaries retained by the Civil Service Commission on a contractual basis, and the Government actuary (a Treasury Department employee). The board has the responsibility for periodically evaluating the fund, reporting on actuarial operations, and recommending changes to the Civil Service Commission as are deemed necessary to protect the public interest and to maintain the system on a sound financial basis.

General Accounting Office audits

The expenditures and receipts of the civil service retirement and disability fund as administered by the Civil Service Commission were audited by the General Accounting Office on a centralized basis prior to April 1949. Since then the audit has been performed at the offices of the fund on a continuous basis. Expenditures for benefits and refunds payable from the retirement system administered by the Commission were examined to determine whether benefits were paid out of the proper appropriation and to eligible recipients in accordance with the requirements of applicable statutes, administrative regulations, and Comptroller General's decisions.

General Accounting Office recommendations to the Congress

The General Accounting Office has included the following recommendations in an audit report for the fiscal years 1954–55:

Allowance of service credit for excessive periods of leave without pay.—The General Accounting Office believes that it is inequitable for an employee to receive service credit during excessive periods of leave without pay, and recommended that the Retirement Act be amended to provide that the amount of leave without pay for which an individual may receive credit for retirement purposes be limited to 30 calendar days in any period of leave without pay.

Advantage to person transferring from another Government retirement system.—A person transferring to a position covered by the Civil Service Retirement Act from one covered by another Government retirement system is entitled under the law to receive service credit without refund of withdrawn contributions, but with a deduction from his annuity equivalent to 10 percent of the amount which he would have contributed to the fund had he been covered by the act during this period. However, an employee who renders all his service in positions covered by the act and who receives a refund upon separation must redeposit the refund with interest before retirement after reentry into Government service in order to receive credit for prior service.

The General Accounting Office recommended that the Retirement Act be amended to preclude credit for any period of service for which a refund has been received from any Government retirement system, until there has been deposited to the civil-service retirement fund a sum equal to the refund plus interest.

Credit for military service in excess of that on which military retired pay is based.—As a result of a Court of Claims decision an applicant was allowed credit toward a civil-service annuity for excess military service beyond that necessary to establish an annuity under the military retirement system. The Commission has since sent nine similar cases to its Board of Appeals with the recommendation that the claims be denied.

The General Accounting Office recommended that the act be amended to provide that no credit be given for any periods of military service when the employee is receiving military retired pay, other than retired pay awarded on the basis of certain disabilities or awarded under title III, Public Law 810, 80th Congress.

General Accounting Office recommendations adopted by the Commission

The following recommendations and other findings by the General Accounting Office relating to administrative practices have been considered by the Civil Service Commission and procedures have been revised to effect the necessary changes:

Additional interest for setoffs.—It was recommended that the Commission compute and recover additional interest due the Government to date of recovery instead of the date of request for a setoff against amounts otherwise due a debtor, where cases have been referred to the Commission by other Government agencies.

Preparation of award cards from original sources.—The Commission's internal procedures were revised to prepare an annuity award card from the sources of original evidence with respect to commencing date of annuity, monthly rate, and amount to be withheld, if any.

Notification of entitlement to greater benefits.—The Commission now notifies an applicant for a refund of employee contributions, of his greater benefits under an annuity if the applicant is eligible for an annuity. The previous policy was to pay the refund as requested, even though at the time the applicant had entitlement to an annuity.

General Accounting Office recommendations under consideration by the Commission

Administrative controls of entitlement to repetitive payments.—The Commission has no procedures to preclude continued annuity payments

for deceased annuitants whose death is not reported. It was recommended that controls be established to preclude such improper payments.

Concurrent military retired pay and civil-service annuity.—It was recommended that current procedures be modified to preclude the payment of concurrent military retired pay and a civil-service annuity based on the same service, except where authorized.

Financial status of the fund

The annual report of the Civil Service Commission has not included financial statements to show the status or condition of the fund. The Budget and Accounting Procedures Act of 1950 requires the full disclosure of financial results, and, in a report dated October 10, 1955, to the Bureau of the Budget concerning proposed legislation, the General Accounting Office recommended that additional statements should be provided for this trust fund.

The audit made by the General Accounting Office has not been directed toward an evaluation by actuarial methods or otherwise of the liabilities of the retirement fund or of the resources which are, or are expected to be, available to the fund. However, the Committee on Retirement Policy for Federal Personnel (established as a group distinct from the Civil Service Commission, pursuant to Public Law 555, 82d Cong.), in its report to the 83d Congress on June 29, 1954 (S. Doc. No. 89, pt. 4, table 1c), evaluated the financial condition of the system as of June 30, 1953, as follows:

	In billions
Present value of liabilities in respect to active and retired members	$29.601
Present value of assets in respect to active and retired employees:	
Funds on hand	5.636
Future employee contributions (at 6 percent)	7.426
Future employer contributions at normal rate (5.15 percent)	5.869
Total	18.931
Unfunded liability (residual)	10.670

The bases on which the estimates were made are set forth in the report of the committee. On the committee's assumption that contributions from employees would continue at the current rate of 6 percent of salary, and from the Government at the past average rate of 5.15 percent, the report indicates that there was an unfunded liability (present value) of $10.67 billions at June 30, 1953, representing the unfinanced past-service liability. The committee's report shows that if the employee's contribution rate remained at 6 percent, it would require a future Government contribution rate of 8.63 percent as a minimum rate that could be maintained indefinitely without causing an increase in the unfinanced past-service liability.

GENERAL SERVICES ADMINISTRATION

The General Services Administration was established as an independent agency in the executive branch of the Government by the Federal Property and Administrative Services Act of 1949 (63 Stat. 377), effective July 1, 1949. In enacting this legislation, it was the intent of the Congress to provide for the Government an economical

and efficient system for the procurement and supply of personal property and nonpersonal services, the utilization of available property, the disposal of surplus property, and records management. The act transferred to GSA the existing functions of five agencies: The Federal Works Agency, the Bureau of Federal Supply, the Office of Contract Settlement, the National Archives establishment, and the War Assets Administration. It also gave to the Administration certain new functions and responsibilities not previously assigned to its constituent agencies.

Reorganization Plan 7 of 1949 and Reorganization Plans 15, 16, and 17 of 1950 transferred all of the Administration's functions relating to public roads, public-works assistance, and school-assistance programs to other agencies. Reorganization Plan 18 of 1950 transferred to GSA all functions relative to the leasing and assignment of general-purpose space in buildings, and the operation, maintenance, and custody of office buildings not used predominantly for post office or other special purposes. Reorganization Plan 20 of 1950 transferred from the Department of State to the GSA several functions not related to foreign affairs, such as the publication of the Statutes at Large and the Territorial Papers of the United States.

Amendment of the Federal Property and Administrative Services Act of 1949 by Public Law 754, approved September 5, 1950 (64 Stat. 578), extended the responsibilities of GSA with respect to real property management. It also authorized the establishment and operation of Federal records centers, and provided the Administrator of General Services with increased authority over the creation, maintenance, and disposal of records.

With the passage of the Defense Production Act of 1950, the President by Executive Order No. 10161 dated September 9, 1950, assigned to GSA certain functions under title III of the act for the expansion of the Nation's productive capacity and for the production and supply of materials necessary to the national defense. These functions and related personnel and records were later transferred to the Defense Materials Procurement Agency by Executive Order No. 10281, dated August 28, 1951. Pursuant to the authority of that order, the Comptroller of GSA was delegated the authority to perform the financial management activities of DMPA. DMPA was abolished by Executive Order No. 10480 dated August 14, 1953, and its functions, personnel, records, and funds were transferred to GSA. The defense materials procurement functions of GSA are now performed under authority of the latter Executive order.

GSA functions through two organizational levels: (1) a central office in Washington, D. C., and (2) 10 regional offices in various parts of the country. Its numerous activities are controlled and directed by five operating services as follows:

1. Emergency Procurement Service, which is responsible for the procurement and administration of strategic and critical materials in the national stockpile, the development of expansion programs for minerals, metals, and other materials under the Defense Production Act of 1950, execution and administration of procurement contracts in behalf of the International Cooperation Administration, and administration of the abaca-fiber program.
2. Public Buildings Service, which is responsible for activities affecting acquisition, utilization, construction, repair, manage-

for deceased annuitants whose death is not reported. It was recommended that controls be established to preclude such improper payments.

Concurrent military retired pay and civil-service annuity.—It was recommended that current procedures be modified to preclude the payment of concurrent military retired pay and a civil-service annuity based on the same service, except where authorized.

Financial status of the fund

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and efficient system for the procurement and supply of personal property and nonpersonal services, the utilization of available property, the disposal of surplus property, and records management. The act transferred to GSA the existing functions of five agencies: The Federal Works Agency, the Bureau of Federal Supply, the Office of Contract Settlement, the National Archives establishment, and the War Assets Administration. It also gave to the Administration certain new functions and responsibilities not previously assigned to its constituent agencies.

Reorganization Plan 7 of 1949 and Reorganization Plans 15, 16, and 17 of 1950 transferred all of the Administration's functions relating to public roads, public-works assistance, and school-assistance programs to other agencies. Reorganization Plan 18 of 1950 transferred to GSA all functions relative to the leasing and assignment of general-purpose space in buildings, and the operation, maintenance, and custody of office buildings not used predominantly for post office or other special purposes. Reorganization Plan 20 of 1950 transferred from the Department of State to the GSA several functions not related to foreign affairs, such as the publication of the Statutes at Large and the Territorial Papers of the United States.

Amendment of the Federal Property and Administrative Services Act of 1949 by Public Law 754, approved September 5, 1950 (64 Stat. 578), extended the responsibilities of GSA with respect to real property management. It also authorized the establishment and operation of Federal records centers, and provided the Administrator of General Services with increased authority over the creation, maintenance, and disposal of records.

With the passage of the Defense Production Act of 1950, the President by Executive Order No. 10161 dated September 9, 1950, assigned to GSA certain functions under title III of the act for the expansion of the Nation's productive capacity and for the production and supply of materials necessary to the national defense. These functions and related personnel and records were later transferred to the Defense Materials Procurement Agency by Executive Order No. 10281, dated August 28, 1951. Pursuant to the authority of that order, the Comptroller of GSA was delegated the authority to perform the financial management activities of DMPA. DMPA was abolished by Executive Order No. 10480 dated August 14, 1953, and its functions, personnel, records, and funds were transferred to GSA. The defense materials procurement functions of GSA are now performed under authority of the latter Executive order.

GSA functions through two organizational levels: (1) a central office in Washington, D. C., and (2) 10 regional offices in various parts of the country. Its numerous activities are controlled and directed by five operating services as follows:

1. Emergency Procurement Service, which is responsible for the procurement and administration of strategic and critical materials in the national stockpile, the development of expansion programs for minerals, metals, and other materials under the Defense Production Act of 1950, execution and administration of procurement contracts in behalf of the International Cooperation Administration, and administration of the abaca-fiber program.
2. Public Buildings Service, which is responsible for activities affecting acquisition, utilization, construction, repair, manage-

ment, disposal, and other aspects of Government-owned or controlled real property.

3. Federal Supply Service, which is responsible for the activities affecting procurement, storage, issue, utilization, disposal, and other aspects of personal property management in the Federal Government.

4. Archives and Records Service, which is concerned with activities relating to the management and preservation of Federal records.

5. Transportation and Public Utilities Service, which is responsible for planning, developing, and coordinating all programs pertaining to centralized management and control of transportation and public utility services in the civilian executive agencies of the Government.

GSA operations are financed by congressional appropriations; reimbursements, transfers, and advances from other Government agencies; revolving funds; borrowings from the United States Treasury under authority of the Defense Production Act of 1950; and trust funds.

General Accounting Office audits

A comprehensive audit of the General Services Administration was undertaken by the General Accounting Office, effective July 1, 1950. Beginning that date, all vouchers, contracts, schedules, accounts current and supporting documents, except vouchers covering payment for transportation services, were retained in the GSA regional offices where the audit of these records and underlying transactions has been performed. For the period July 1, 1949, to June 30, 1950, the expenditure and collection vouchers and related documents supporting the accounts current of the disbursing officers were audited at the GSA regional offices, under the then existing audit program which concerned itself primarily with the determination as to whether expenditures were made legally and solely for the objects for which appropriations were made.

The comprehensive audit of the financial transactions and records of the Defense Materials Procurement Agency covered the period from its inception on August 28, 1951, to the time it was abolished on August 14, 1953, and its functions, personnel, records, and funds were transferred to GSA. These activities are now being audited as part of the comprehensive audit of GSA.

Strategic and critical materials (stockpiling) program

In its audit report to the Administrator of General Services for the fiscal years ended June 30, 1952 and 1953, the General Accounting Office cited deficiencies in procurement and accounting procedures and practices relative to the stockpiling program. The report contained a recommendation that GSA prepare a written manual of operating procedures that would clearly set forth the authority and responsibility of the contracting officers and establish standards for guidance of contracting personnel. The GAO reports that this has not been done.

The GAO also recommended that a plan be developed to provide for periodic physical tests of inventories at all stockpile storage locations, and that numerous improvements and corrections be made

in the accounting for the stockpiling operations. Remedial action taken by the agency on the accounting deficiencies has resulted in a marked improvement in accounting and internal control. However, according to GAO reports, little progress has been made to date by way of actual accomplishments in the taking of physical inventories, although an overall plan has been developed.

The committee has been advised by GSA that the matter of physical inventories of the stockpile has been the subject of discussions between GSA, ODM, and the Bureau of the Budget, and by congressional appropriations committees. The Hoover Commission has recommended that physical inventories be taken on a 2-year cycle. A plan for a complete physical inventory has been developed by GSA in cooperation with the ODM and GAO, and a request for funds for this purpose has been approved by the Bureau of the Budget and is included in the budget for fiscal year 1957. Some funds are available to GSA in fiscal year 1956 for this program, and inventory taking has been completed at some locations. Reconciliation of records prior to inventory taking has been completed at several GSA depots, and others are in process. Plans have also been developed for confirmation of balances at commercial locations. The GSA is also resolving the matter of physical inventories with the Department of Defense for materials stored at military locations.

The General Accounting Office audit covering the fiscal years 1954 and 1955 has placed emphasis upon reviews of storage and transportation activities and procurement of certain of the stockpiled materials. Significant matters disclosed in the audit have been reported to the agency on an individual basis for its prompt consideration and initiation of remedial action as required. Following are some examples of the current audit findings in this program which were brought to the attention of GSA by the General Accounting Office auditors.

Purchases of vanadium.—The stockpile objective for this material had been reached largely through transfer from the Atomic Energy Commission of byproduct vanadium which AEC was purchasing from various producers at 98.475 cents per pound. At the same time, GSA was purchasing vanadium from one of the uranium producers at prices ranging from $1.15 to $1.215 per pound. In reviewing the performance under the GSA contract, the General Accounting Office noted that the contractor had failed to meet specified delivery schedules and therefore could be declared in default. Pursuant to the GAO recommendation, the contract was terminated. As a result, stockpile funds in the amount of $1,261,000, which would have been expended for unnecessary quantities of vanadium, were made available for the purchase of more critical materials, and if the balance under the canceled contract is delivered to AEC at the lower unit price, the Government will save $239,000.

Storage activities.—The General Accounting Office review of activities at selected stockpile storage locations disclosed a variety of weaknesses and deficiencies which are now being studied. Of principal importance is the fact that many materials are stored in such a manner as to preclude the taking of accurate physical inventories and that costly rehandling and restorage would be necessary to correct this unsatisfactory condition.

As previously indicated, GSA has advised the committee that an inventory plan has been developed which contemplates re-storage of stockpile commodities to permit physical inventories.

The review also disclosed that pursuant to instructions issued by Federal Civil Defense Administration, engine-powered equipment owned by FCDA and stored in GSA's warehouse in Buffalo, N. Y., and other warehouses had not been subject to surveillance and maintenance since April 1953. As a result, much of the equipment was inoperative due to dead batteries and frozen valves. In a report to the Administrator, FCDA, the General Accounting Office suggested that an appropriate maintenance program be instituted. The Administrator's reply dated August 29, 1955, gave assurance that the condition described in the GAO report would be corrected. The GSA points out that this is a matter which concerns the Federal Civil Defense Administration, and therefore, made no comment.

Defense production activities

The General Accounting Office audit of the varied activities under this program has covered the period from its inception, December 29, 1950, through June 30, 1955, which includes that period when the program was carried out by the former Defense Materials Procurement Agency. Significant findings have been reported individually to the agency for its consideration and corrective action where necessary. Following are some of the more significant disclosures by the General Accounting Office in its audit of these activities.

Erroneous billings.—A review of rubber purchases and sales disclosed that in many instances the sales prices billed to and paid by industry were lower than those prescribed in the Government contracts. The General Accounting Office recommended that a more detailed and extensive examination be conducted by the agency to disclose the full extent of unadjusted underbillings to private industry. The GSA review was completed on May 5, 1955. As a result of the audit findings, additional billings of over $222,000 were issued to rubber consumers of which over $130,000 has been recovered to date.

The GSA informs the committee that purchases of approximately $867 million and sales of approximately $889 million were made under this program. The GSA, which was the exclusive United States importer of rubber, reports that the price of rubber, as a result of the operation of the program, declined from about 62 cents per pound to about 25 cents per pound when the program was terminated, and that many millions of dollars were saved by the Government and industry as a result of this program. It was also reported that, in operating the rubber program, a profit of about $13.8 million was realized by the GSA.

Reduction in expenditures for tungsten.—After noting that the quantities of tungsten in inventory and on order in both the defense production program and the national stockpiling program were in excess of the established requirements, the General Accounting Office reviewed delivery performance under many of the procurement contracts. As a result of this review, GSA terminated one contract for default in a case where the delivery requirements of the contract were not being met. The GAO reported that approximately $5.6 million reserved for the purchase of tungsten was released under this action

and made available for other procurement needs, and an acquisition of surplus tungsten was averted.

Copper diversions.—In a review of copper procurement and sales, the General Accounting Office reported that pursuant to authorization from the Office of Defense Mobilization aimed at increasing the supply of copper to industry, GSA had allowed three domestic producers to cancel deliveries of copper due the Government during the second calendar quarter of 1955. These producers were permitted to sell the diverted copper to designated domestic consumers at market prices which were higher than the prices the Government was obligated to pay under its contracts. As a result, in contrast with the profits which GSA could have made by taking delivery and selling the copper to consuming industries, the cancellations gave windfall profits to the contractors.

The General Accounting Office questioned GSA's action in this matter in April 1955. Subsequently the Office of Defense Mobilization stated that deferment rather than cancellation of deliveries would have been preferable. Accordingly, cancellations were discontinued in May 1955, at which time the GAO estimated that the Government lost about $245,000 which could have accrued under the contract. The producers were then allowed to continue to sell to domestic consumers upon agreeing to make up the required deliveries to GSA at a later date. However, one producer elected to resume deliveries to GSA. The GAO reported that GSA sold the copper which this producer delivered to it during June through September 1955, at a profit of more than $460,000.

The committee is advised by GSA that ODM determines the policy with respect to the deferrals or cancellations of deliveries, and that GSA carries out such policies. The basic purpose of this program, as in other programs authorized under Public Law 774, is to expand supply and the capacity for production of critical materials, and not to buy and sell.

Overpayment on purchase of titanium.—The General Accounting Office review of purchases of titanium revealed that a contractor had billed and the agency had paid for certain deliveries at a unit price in excess of that specified in the contract. The resulting recoveries were reported to total more than $72,000.

Unauthorized capital loans.—The General Accounting Office audit disclosed that under certain contracts for the procurement of strategic and critical materials, loans to the contractors for construction or expansion of plant facilities were made under the pretext of advance payments against production. As of February 28, 1955, loans amounting to $120 million had been authorized and approximately $99 million had been advanced. On August 13, 1954, the General Accounting Office informed the Administrator of General Services that the program under which capital loans were being made in the form of advance payments repayable in periodic installments or in materials was of highly questionable legality. In preliminary reply dated March 8, 1955, GSA stated that it is now its practice not to enter into procurement contracts involving advances against production where the funds may be used for the construction or expansion of plant facilities. The General Accounting Office is now studying the formal reply of the Administrator before instituting further action in this matter.

The committee is advised that the GSA took exception to the questionable legality point raised by the GAO in connection with this program. The GSA informed the GAO that it believed (and the general counsel of ODM concurred) that authority existed under Public Law 774 to make advance payments for plant expansion under production contracts, provided the amount advanced was not greater than the value of the material which the Government had a right to purchase, so that the advance could be recovered by a charge against a part or all of the material produced.

Public Buildings Service

In its audit of the activities of the Public Buildings Service, the General Accounting Office disclosed numerous procedural, operational, and accounting deficiencies at the central office and the regional offices. The deficiencies were reported to responsible officials and in many cases corrective action has been taken. Pending matters are receiving the continued attention of the General Accounting Office to assure proper disposition. Following are some of the more significant disclosures of the audit of the Public Buildings Service activities.

Disregard of controlling statutes in execution of lease.—The General Accounting Office disclosed that GSA, in its execution of a lease of a building in Chicago for Federal office space, disregarded the controlling statutes in the following respects:

1. The lease provided for an annual rental of $500,000 which was considered by GSA to be within the 15-percent limitation of the Economy Act of 1932, based on a fair market value of $4,295,000 as determined by a GSA employee. The General Accounting Office questioned the reasonableness of this appraisal. As a result, the agency submitted a revised appraisal of fair market value at date of lease, in the amount of $2,500,000. This revised valuation would allow a maximum annual rental of only $375,000. On August 12, 1955, the Acting Comptroller General directed GSA to take action to recover all rental payments in excess of $375,000 per annum made since June 22, 1951, the date of the lease, and to limit current and future rental payments to $375,000 a year.

2. GSA paid $102,937 to 39 tenants of the leased building for the termination of their leasehold interests. The leases of these tenants contained "eminent domain" clauses providing for termination of the leases upon condemnation or taking of the property by competent authority. GSA has been advised by the Acting Comptroller General that, in the light of the fundamental rule, that under a lease containing an "eminent domain" clause the lessee has no property right to compensation upon taking, the GAO could not view such settlements as proper. The agency was also advised to consider such payments as subject to recovery as an expense incurred for the purpose of obtaining possession of the building and required to be considered incident to the 15-percent limitation of the Economy Act.

3. GSA's lease provided that the Government would assume responsibility for any loss, liability, or expense incurred by the lessor to secure the cancellation or termination of any other existing tenancies. The Acting Comptroller General held that the contracting officer exceeded his authority in including such provisions in the lease without express statutory authority and the provisions may not be recognized as imposing any legal obligation on the Government.

4. GSA paid $2,374,000 for repairs, alterations, and improvements to the building. An annual net rental of $9,497,000 and a fair market value of at least $63,315,000, at the date of the lease would be required to justify these expenditures under the 25-percent limitation of the Economy Act. Although the building was leased primarily to house the Bureau of the Public Debt, the amount expended for repairs and alterations was charged to the appropriation "Emergency operating expenses." The Acting Comptroller General informed GSA that this appropriation, which is available for repairs, alterations, and improvements without regard to the 25-percent limitation, was intended for use in connection with expanded activities of defense and immediately related agencies and was not to be used to house nondefense activities. Apparently anticipating the foregoing conclusion, GSA submitted a certificate of determination executed on February 1, 1955, pursuant to the provisions of section 210 (a) (8) of the Federal Property and Administrative Services Act of 1949, as amended, in an attempt to justify the expenditures for repairs on the basis of advantage to the Government as compared to cost of alternative space requiring no repairs. Since the GSA computation did not take into consideration the total cost to the Government under the leased building in question, the certificate was not accepted as establishing that the leasing of the building was advantageous to the Government in terms of economy and efficiency. Accordingly, the Acting Comptroller General advised GSA that he would not allow credit for payments for repairs, alterations, and improvements in excess of $93,750 (25 percent of $375,000) pending further action or receipt of additional comments by GSA.

The committee has been advised that GSA has submitted a supplemental estimate of appropriation for the fiscal year 1956 to acquire the land and building discussed above. The GSA advises that matters presently in controversy between the Government and the owners will be resolved by judicial process.

Expenditures for alterations, improvements, and repairs to Government-leased properties.—1. On January 14, 1954, the Comptroller General, in a decision to the Administrator of General Services, objected to the agency's contracting practices in connection with the repair and alteration of Government buildings. Letters of intent were being used to authorize contractors to undertake the work and to enter into subcontracts providing for reimbursement of direct costs plus specified percentages for overhead and profit up to a stated amount, pending negotiation of a definitive contract on a lump-sum basis. In actual performance, the cost limits stipulated were consistently disregarded and increased by successive amendments after they had already been exceeded, and definitive contracts were delayed until the work was completed or nearing completion. The agency was advised that the execution of the so-called lump-sum contracts was more in the nature of settlement of the contractors' claims than the negotiation of contracts, and that thereafter such contracts, which were in violation of the prohibition against the cost-plus-a-percentage-of-cost system of contracting, would not be considered as binding obligations of the Government, and that credit for payments under such contracts, equal to the percentage of fees provided in the preliminary agreements, would be disallowed in the audit. The agency has since corrected its practices to eliminate the objectionable features.

2. The General Accounting Office audit disclosed that GSA's controls did not assure compliance with the limitation on expenditures for alterations, improvements, and repairs to Government-leased property which are limited to 25 percent of the first year's rental by section 322 of the Economy Act of 1932, as amended. This condition resulted primarily from the failure to record on the control records all costs properly chargeable to the limitation. Consequently, GSA was not in a position to make a positive determination that this expenditure limitation was being complied with. The need for corrective action was discussed with responsible GSA officials.

The GSA advises that procedures were subsequently changed to assure compliance with the limitation on expenditures for alterations, improvements, and repairs.

Real-estate activities.—The General Accounting Office audits at GSA regional offices disclosed various deficiencies in the leasing and utilization of space which were reported to responsible GSA regional officials. The following are examples of such matters:

Absence of adequate criteria for selection of basis to be used for determination of fair-market value to comply with the 15-percent limitation provided in section 322 of the Economy Act of 1932, as amended.

Failure to determine fair-market value at date of lease as required by section 322 of the Economy Act of 1932, as amended.

Failure to employ a realistic method of determining fair-market value when only part of a building is leased.

Failure to verify service costs submitted by lessors. This precludes proper determination that net rental is within the 15-percent limitation.

Upward revision of service costs to reduce rental sufficiently to avoid the 15-percent limitation.

Lack of adequate records and information covering value of Government-financed improvements and alterations, title to which is retained by the Government.

Lack of policy requiring negotiations for residual value of alterations and improvements to be made by the Government at time of leasing.

Outleasing of deteriorated and hazardous dwellings.

Execution of leases by unauthorized personnel.

Failure to establish positive policies and procedures governing the form and frequency of space surveys to determine effectiveness of space utilization.

Assignment of space on basis of verbal requests without written confirmation evidencing justification of need or lack of other available space.

Failure to require agencies to submit correct space reports and failure to reconcile differences between space reports and space assignment records and PBS surveys for use in management of program.

Failure to submit leases for legal review.

Failure to readvertise leased building sites when higher income potential is apparent. No policy as to periodic readvertising.

Failure to require submission and maintenance of reliable space assignment records.

Deficiencies in lease administration (e. g., succeeding leases executed after commencement of lease term, and lack of evidence that alterations and repairs to be made by lessor were actually accomplished or verified).

Some of these deficiencies have since been eliminated; others still require corrective action.

Buildings Management Fund

In its reports to the Administrator of General Services on the audit of the activities of Buildings Management Fund from its inception on January 1, 1953, to June 30, 1954, the General Accounting Office disclosed deficiencies and weaknesses in the controls exercised over fund operations and numerous errors in accounting and recordkeeping. The audits disclosed that assets and liabilities of the fund were incorrectly stated, and, in some cases, not even recorded, and that income and expense items were classified erroneously. The incidence and significance of these deficiencies and errors varied as between regional offices, and were brought to the attention of responsible officials of the central and regional offices for appropriate corrective action. In many cases corrective action has been taken, and open items are being kept under review to assure that proper disposition is made. The General Accounting Office emphasized that the legal requirement that the annual net income of the fund be covered into the Treasury of the United States as miscellaneous receipts, and the needs of management for useful data, make it essential that the accounting for operations financed by the fund be accurate and reliable.

General Supply Fund

In its audit report to the Congress for the period from July 1, 1949, through June 30, 1953, the General Accounting Office commented on deficiencies in accounting and recordkeeping which precluded it from rendering an opinion that the agency's financial statements presented fairly the financial position of the fund as of June 30, 1953. Toward the end of the audit period, the GAO noted many desirable changes in accounting practices and an effort to eliminate the deficiencies previously disclosed in its audit.

The audit report disclosed that prior to the close of the 1953 fiscal year, 100 items carried in the fund inventory at average cost, which was in excess of current market prices, were written down to the current market value of the items. The writedown amounted to $392,333 and, in effect, anticipated the losses to be incurred in a subsequent year upon the sale of the items at reduced prices. This reduced the surplus otherwise payable to the Treasury as of June 30, 1953. In view of the legal requirement that the surplus of the fund as of June 30 of each year be covered in the Treasury as miscellaneous receipts, the General Accounting Office recommended that GSA discontinue the practice of writing down inventory prior to sale and that it recognize losses due to reduced sales prices only when the sales are actually made. This recommendation was adopted by the agency.

Internal auditing

In January 1950, GSA established an Audit Division in the Office of the Comptroller to carry out the following functions:

(1) Contract auditing, which involves the verification of contractors' cost representations and other variable factors in connection with purchase, lease, construction, and other contracts;

(2) Internal auditing, which involves auditing the agency's financial records and transactions, including an evaluation of the effectiveness of all related control processes.

While the contract audits made by the GSA audit staff have been useful to management, the GAO states that the delay in performance of audits and in release of reports has in some instances reduced the usefulness of such examinations. The General Accounting Office has noted that the GSA Audit Division does not have an adequate record of its contract audit workload and is not always aware of the existence of contracts which require audit. In the opinion of the General Accounting Office, this condition weakens considerably the effectiveness of the contract audit function. If it is to reach its maximum potential usefulness to the agency, adequate procedures to establish and control the contract audit workload should be established without further delay. The committee has been informed that action along these lines is being taken by GSA.

In its audits through fiscal year 1954, the GAO saw no evidence of thorough and well-conceived internal audit coverage of the accounting phase of the GSA revolving funds. In view of the deficiencies disclosed by its audit, the GAO recommended that the Comptroller, GSA, take steps to extend the work of the Audit Division to provide for a periodic review of the accounting operations of the funds, in order to bring about early disclosure of deficiencies requiring corrective action and to aid in the improvement of the accounting functions. At the close of fiscal year 1955, the GSA Audit Division was taking steps in accordance with the GAO recommendation.

The General Accounting Office recognizes the agency's difficulties in obtaining an adequate staff of competent auditors. Nevertheless, it feels that greater effort should be exerted in the development of an effective program of internal audit designed to provide those responsible for the management of GSA with assurance that its programs and policies are being carried on effectively.

The GSA has informed the committee that an internal audit program is being developed which it believes will meet the objectives desired, both within GSA and by the GAO. For the past several years, funds have not been available for internal audit of GSA basic operating programs. Funds for this purpose have again been requested in the GSA fiscal year 1957 budget estimate.

Establishment of interagency motor pools and systems

In the analyses of audits of the Department of the Interior, and certain other agencies, the General Accounting Office has reported excessive motor vehicle operations, and actions taken to conform to GAO recommendations. On recommendations of this committee, the Federal Property and Administrative Services Act of 1949, as amended, was further amended, on September 1, 1954, by the enactment of Public Law 766, 83d Congress, which act, among other things, authorized the Administrator of General Services, subject to regulations to be issued by the President, to establish and operate motor vehicle pools and systems to serve the needs of executive agencies in the transportation of Government personnel and property. The act provided that such motor vehicle services would be furnished by the Administrator, in any given area, upon a determination by him that the furnishing of such services through the establishment of an interagency motor pool

or system was advantageous to the Government in terms of economy, efficiency or service and after consultation with and with due regard to the program activities of the agencies concerned.

Pursuant to the above act, the President, on November 30, 1954, issued Executive Order No. 10579, which prescribed regulations, effective upon all executive agencies, relating to the establishment and operation of interagency motor vehicle pools and systems. With respect to areas selected by the Administrator for study in connection with determining the advisability of establishing motor vehicle pools or systems therein, the Executive order required the head of each executive agency receiving notice of such a study to provide GSA with such information as is required or pertinent and to designate one or more officials of his respective agency in the field with whom GSA representatives may consult.

The following is a report of the accomplishments of GSA to date in the establishment of interagency motor pools and systems pursuant to the above statute and Executive order, as requested by the chairman of this committee on November 8, 1955, including a résumé of problems encountered by GSA which have hindered or otherwise adversely affected the successful accomplishment of the interagency motor pool and systems program.

Accomplishments.—In carrying out the responsibilities imposed upon the Administrator of General Services pursuant to the provisions of Public Law 766, 83d Congress, and Executive Order 10579, the General Services Administration has:

1. Established policies and procedures which, to the extent practicable, provide for participation and cooperation of all concerned agencies, at all levels of operation, in the development of determinations to establish motor pool systems; the establishment thereof; and finally, the continued operation and management of such motor pool systems;

2. Commenced studies to determine the economic feasibility of establishing motor pool systems in selected areas; reviewed the results of these studies and prepared determinations based on the cost comparisons, savings to be obtained and requirements of the services; and established motor pool systems to the extent justifiable and as agreed to by concerned agencies and the Bureau of the Budget. (The GSA furnished to the committee a table showing commencement dates, completions, or estimated completion dates in 13 areas).

Problems.—The General Services Administrator reported that, generally, agency cooperation has been excellent and there has been evidence by word and deed of their intentions to give the program a fair test and to furnish every assistance in carrying out the congressional intent expressed in the statute. Nevertheless, the Administrator's report indicated that there has developed certain problems which are of grave concern to GSA and which conceivably could endanger the success of the program. They are—

1. Exemption by agency heads: Section 4 (c) of Public Law 766 provides in effect for exemption by agency heads of any vehicle regularly used by an agency in the performance of investigative, law enforcement, or intelligence duties. The report of the committee (S. Rep. No. 1941, 83d Cong.) indicated that the Congress intended

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this provision to provide for exemption of vehicles used in connection with duties of a nature requiring the vehicles to be operated without the display of Federal identification.

The GSA reported that certain agencies have interpreted this provision to carry much broader authority for exemption. The problems resulting from such interpretations are divided under the following two headings:

(*a*) Investigative: Some agencies feel that a motor vehicle used in investigative work of any type can be exempted by the head of the agency, including fully identified vehicles. The GSA has held that, under such a broad interpretation, nearly all Government-owned vehicles would be susceptible to exemption since in one way or another nearly all Government work is investigative.

The Interstate Commerce Commission and the Bureau of Mines, Department of Interior, are the major proponents of this theory. These agencies have asserted their presumed right to exempt their vehicles from inclusion in any motor pool system. The total number of vehicles involved for these two agencies is not great, but the GSA contends that the establishment of the precedent will undoubtedly start a movement which will spread to other agencies and eventually frustrate the program.

The inventory statistics of Bureau of Mines and ICC motor vehicles are:

	Total vehicles reported, June 30, 1955	Vehicles in 1st 4 pool areas
ICC	127	18
Bureau of Mines	915	44

(*b*) Law enforcement: A considerable number of vehicles, which are partially or completely identified, used in various bona fide law-enforcement activities, have been exempted by agency heads. The GSA reports that many of these vehicles could be included in interagency motor-pool systems with resulting savings of considerable importance, while at the same time providing the agency concerned with more flexibility of operation and a better source of motor-vehicle transportation. Several agencies are concerned to a varying degree but, because of the language of the statute, the determinations of agency heads to exempt such vehicles have not been questioned. Some examples are—

Immigration and Naturalization Service, Department of Justice
Alcohol and Tobacco Tax Division, Department of Treasury
Bureau of Customs, Department of Treasury
Internal Revenue Service, Department of Treasury
Food and Drug Administration, Department of Health, Education, and Welfare

The vehicles of the Food and Drug Administration, Department of Health, Education, and Welfare, are examples of this problem. The Secretary of Health, Education, and Welfare determined that 204 vehicles should be exempted. Subsequent correspond-

ence indicates a need for total concealment of Federal identification for only 48 vehicles.

2. Appeal for exemption by Veterans' Administration: During the hearings on the motor-pool bills, leading to the enactment of Public Law 766, the Veterans' Administration advanced arguments that the inclusion in motor-pool systems of vehicles used by hospitals would endanger their program.

Subsequently, VA filed an appeal with the Bureau of the Budget for total exemption of all hospital vehicles. At a meeting with BOB and VA representatives, GSA representatives explained that every emergency or routine need for vehicle service by a hospital would be met as efficiently by a motor pool as by present VA operation and with a certainty of reducing the present high motor vehicle costs, in some cases 54 cents per mile. The variations of costs of motor-vehicle services in various hospitals, from 11½ cents to 54 cents is cited by GSA as one proof of the need for placing the vehicle management under control of qualified technicians.

3. Department of Defense cooperation: Several months were expended in arriving at a solution of many problems which developed in connection with making a study of vehicles operated by the military services in the areas under consideration. This accounts for the fact that military vehicles or services have not been included in the first determinations.

Most of these problems have been resolved and studies of the military vehicles, as reported, are progressing. Supplemental determinations will soon be prepared with respect to the inclusion of these vehicles. Two problems have not yet been resolved. They are—

(*a*) The DOD have refused to furnish inventory information about vehicles which they consider to be exempt by law. Hence, there is no available record of the number of such exempted vehicles; and

(*b*) Since a determination affecting DOD has yet to be developed and implemented, the degree of cooperation which will be evidenced at that time is not known. Present indications are that no problem will develop. GSA will be in a better position to report on DOD cooperation about April 1, 1956.

A member of the staff of this committee, while in San Francisco on official committee business during the first week of August 1955, found an opportunity to check into some of the activities and operations of the GSA, including the operations of the motor-vehicle-control program in that area. The GSA regional director reported that the questionnaire (GSA–T–95) forwarded to the various military installations in San Francisco area had not been completed and returned to the GSA for analysis and determination as to the feasibility of including certain military vehicles in the proposed area pool. The staff was informed at that time that the local military officials were ready to submit this data to the GSA, but on orders from Washington they had held up the submission of the report.

Costs and savings.—The life expectancy of any motor-pool system established under Public Law 766 is contingent upon a showing of "actual savings." A review of the first four studies completed by GSA indicates substantial estimated savings, as follows:

Location	Estimated savings from—		Other one-time savings	Total annual savings
	Civil agencies	Military agencies [1]		
San Francisco	$59,223	$60,000	$10,053	$129,276
Chicago	35,753	40,000	3,500	79,253
Dallas-Fort Worth	62,007	25,000		87,007
Denver	141,984	15,000	20,129	177,113
Total, for 4 motor-pool systems				473,649

[1] Estimates based on incomplete reports at hand.

The GSA also reported that there has been a reduction in vehicle inventory, in the first 4 areas studied, by the agencies concerned of 316 vehicles, a resulting annual recurring savings of $158,000, but pointed out that it should be noted that agency records of present and past costs are not maintained on a standard basis and are usually not inclusive of all costs; and that, accordingly, available cost records present an insecure basis for cost comparisons at this or a future time.

The Administrator of General Services reports that this fact, along with future difficulties of adjusting increases or decreases in workloads for various areas; adjusting costs against increases or decreases in costs of equipment, material, facilities, and personnel; and relating these back against an unstable base, may result in administrative costs far in excess of the results obtained. This problem will be given further study by GSA with the view to developing a recommendation for future submission.

NATIONAL ADVISORY COMMITTEE FOR AERONAUTICS

The National Advisory Committee for Aeronautics (NACA) was created as an independent agency by the act of March 3, 1915 (38 Stat. 930; 50 U. S. C. 151). The law provides that—

> it shall be the duty of the Committee (1) to supervise and direct the scientific study of the problems of flight with a view to their practical solution, (2) to determine the problems which should be experimentally attacked, and to discuss their solution and their application to practical questions, and (3) to direct and conduct research and experiment in aeronautics—

in the NACA laboratories.

In the hearings on the General Accounting Office appropriation request for the fiscal year 1953, the Subcommittee on Independent Offices of the House Committee on Appropriations requested that a comprehensive survey of NACA be made. At the time the survey was initiated, the General Accounting Office decided to place the agency under comprehensive audit beginning with the fiscal year 1953. It has submitted the following reports to the Congress on its audits of NACA.

Period covered:	*Date submitted*
Survey	Feb. 20, 1953
Fiscal year 1953	Oct. 12, 1954
Fiscal year 1954	Dec. 5, 1955

General Accounting Office recommendations to the Congress

1. The survey and audit reports have commented on the agency's practice of using salaries and expenses appropriations for construc-

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tion purposes. It was concluded that NACA had not acted illegally, but that effective control over the use of funds for construction purposes was lost to the Congress. It was recommended that appropriations for construction and equipment clearly define the nature and scope of the facilities for which the funds are appropriated, and that the agency be prohibited from using salaries and expenses appropriations to acquire or complete facilities provided for in the construction and equipment appropriation. In order to implement this recommendation, it would be necessary to revise the wording of future NACA appropriation acts. There has been no action by the Congress on this recommendation, although it was discussed during congressional hearings.

The NACA reported to this committee that the Appropriations Committees of the Congress know that funds from the "Salaries and expenses" appropriation are used in executing projects approved under the construction and equipment appropriations, and that most of the funds so used are for personal services to design the facilities and to furnish supervision and inspection services during their construction. Funds are budgeted for these purposes in the personal services section of the salaries and expenses appropriation estimates. According to the NACA, the proposal to include the cost of these supporting services in the construction and equipment appropriations would result in additional bookkeeping that would serve no useful purpose.

2. The 1954 audit report includes a recommendation that the Congress consider the desirability of requiring NACA to charge fees for all work specifically requested to be done in its wind tunnels. It has been the practice of NACA to charge fees for proprietary work done in its tunnels, but it was believed that fees should also be charged for specific work requested by any Government agency or department. It was stated that the implementation of this recommendation would provide for the proper accounting and control of research development costs and might also act as an effective deterrent to the initiation of unnecessary or undesirable work.

The NACA does not agree that fees should be charged for work done in its wind tunnels for other Government agencies, since one of the NACA's major functions is to assist the military services in the practical application of new research information, and this function is being carried out to the maximum extent permitted by appropriations approved by the Congress. The NACA reported that it could not see how the public interest would be better served by requiring the NACA to collect fees from the military services for this work, and that, on the contrary, the proposal would involve considerable additional bookkeeping for no useful purpose. The NACA takes the view that its outstandingly successful system of technical committees and subcommittees already provides an effective deterrent to the initiation of unnecessary or undesirable work.

General Accounting Office recommendations to the agency

The findings and recommendations to the agency included in the survey report issued on February 20, 1953, were discussed during congressional hearings on the NACA fiscal year 1954 appropriation request. The Committee on Appropriations, House of Representatives, in reporting the first independent offices appropriation bill, 1954, stated that NACA should arrange to consult with the General Accounting

Office regarding suggested improvements in its operations. The Senate Committee on Appropriations agreed with this recommendation in its report on the same bill.

A number of conferences were held with the Director of NACA and members of his staff to discuss the recommendations. It was reported that the following recommendations have been adopted:

1. The High-Speed Flight Research Station, located at Edwards Air Force Base in California, has been established as an independent office. This change will eliminate unnecessary paperwork and recordkeeping as well as place the station in its proper organizational position.

2. A revised accounting system was installed in the fiscal year 1955. The procedures adopted under the system and the actual operation of the system are being currently reviewed.

3. Instructions have been issued to standardize recording and reporting procedures, including the use of prescribed codes and forms for classifying and reporting on the various categories of research. Changes have also been made in internal cost accounting operations to standardize laboratory job order systems. A standard format has been prescribed for issuing management policies, regulations, and procedural instructions governing the administration of NACA activities.

4. Procedures have been established providing for the submission (biweekly) to NACA headquarters of all research orders initiated by the laboratories under research authorizations. This prompt review is considered adequate for management control purposes. The agency considered that prior approval of such orders, as proposed in the report, would result in undesirable and costly delays in the scheduling and conduct of laboratory research programs. Research activities on instruments and computing devices are now being approved by the headquarters office.

5. The responsibility for the coordination and control of technical service activities involving shop practices and techniques, model construction, and instrument development has been transferred from the executive officer to the Associate Director for Research.

6. The legal function of NACA has been centralized in the office of the executive secretary. Although this recommendation has been adopted, it is believed that the function should be more concerned with procurement activities than it has been.

The following recommendations have not been adopted:

1. In the survey and audit reports it was recommended that the position of controller be established, and that the agency's activities be subject to review by a qualified internal audit staff. The proposed controller would be responsible for all technical accounting and internal auditing matters; he would provide fiscal and related information essential to the management in establishing policies and in directing, coordinating, and controlling operations. Although the agency has not adopted this recommendation, some effort has been made to review the administrative activities of the laboratories.

The NACA reports that the GAO proposal that a position of controller be established has not been adopted because it is felt that sufficient authority is vested in the present management officials to main-

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tain effective control over the expenditure of funds and the utilization of manpower and other resources; that the NACA is strengthening its activities in the field of internal audit; and that internal auditor positions have been established and are being filled by qualified personnel, and NACA administrative activities are being placed under a continuing and periodic program of review.

2. It was also recommended that fees charged for proprietary work in the unitary wind tunnels include all costs, both direct and indirect. The indirect costs would include an amount for depreciation of facilities, thereby enabling the Government to recover full costs for use of the facilities.

The NACA does not agree that the fees charged for proprietary work done in its wind tunnels should include a provision for depreciation, since most NACA wind tunnels were provided by the Congress in recognition that their construction costs made it prohibitive for industry to provide its own facilities. According to the NACA, to include depreciation charges in the fees would in many cases make industry use of the facilities prohibitive and would thus appear to be contrary to the intent of the Congress.

3. In the fiscal year 1954 audit report, certain recommendations were made which, if adopted, should strengthen contract negotiation processes. It was recommended that the agency (1) revise its method for preparing cost estimates, (2) issue regulations covering the procedure to be followed in analyzing the cost breakdowns, and (3) perform review work at the contractors' plants, preferably using an internal audit staff. It was also believed that more active participation in contract actions by the legal adviser on the headquarters staff would improve contract administration.

The NACA reports that, while it is the basic procurement policy of the NACA that all contracts be awarded to the lowest responsible bidder after formally advertising for bids, cases do arise where contracts must of necessity be negotiated. In such cases, competitive proposals are obtained whenever possible before the actual negotiation process begins. The NACA also reports that it is continuing to strengthen its procurement practices and regulations in this field, that conferences are held to improve contracting techniques, the best literature developed by the military services is made available to NACA contractual personnel, and contract negotiator positions have been established and filled with experienced personnel. The Agency also states that improved instructions have been issued for preparing and recording cost estimates and for analyzing cost breakdowns submitted by prospective contractors, and that contractors' records are reviewed when necessary by NACA auditors, or by military auditors when proximity to the contractors' plants make their participation more economical. In connection with the administration of contracts, a Board of Contract Appeals has been established with the legal adviser as a permanent member.

RAILROAD RETIREMENT BOARD

The Railroad Retirement Board was created to administer a system of retirement insurance for railroad employees under the Railroad Retirement Act of 1935 (49 Stat. 967). It also administers

a system of unemployment insurance for railroad employees under the Railroad Unemployment Insurance Act, approved June 25, 1938 (45 U. S. C. 351–367). It is an independent agency and is composed of three members appointed by the President of the United States by and with the advice and consent of the Senate. The principal offices of the Board are located in Chicago, Ill.

The following comments were included in a General Accounting Office audit report submitted to the Congress on February 10, 1955.

Railroad-retirement system

The railroad-retirement system was established by the Railroad Retirement Act of 1935, approved August 29, 1935 (49 Stat. 967). This act was amended by, and incorporated in, the Railroad Retirement Act of 1937, approved June 24, 1937 (45 U. S. C. 228a–228r). The Railroad Retirement Act, as amended, provides for the payment of benefits to aged or permanently disabled railroad employees and their wives and to the widows, widowers, children, and parents of deceased employees.

The railroad-retirement system is financed principally by a payroll tax on employees and an equal contribution by employers provided for in the Railroad Retirement Tax Act. The present tax on employees is 6¼ percent of each employee's earnings up to $350 a month. Taxes and contributions have been assessed since January 1, 1937.

The payroll taxes and employers' contributions are collected by the Internal Revenue Service and are paid into the Treasury of the United States as internal revenue collections. The Secretary of the Treasury is authorized to credit currently to the railroad retirement account the actual amount of taxes as collected to provide for payment of all annuities, pensions, and death benefits under the Railroad Retirement Acts of 1935 and 1937.

The Railroad Retirement Act authorizes the appropriation to the railroad retirement account for each fiscal year beginning with the fiscal year ended June 30, 1941, (1) an amount sufficient to meet the additional cost of crediting military service rendered prior to January 1, 1937, and (2) the amount of the taxes on employers and employees which would have been payable during the preceding fiscal year for military service after December 31, 1936, by considering such military service as service rendered as an employee. The act provides that military service during any war service period shall be included as years of service in determining eligibility for and in computing an annuity. However, entrance into military service must be preceded by railroad service in the same or next preceding calendar year (45 U. S. C. 228c–1). Appropriations to June 30, 1953, for this purpose have amounted to $334,429,100, of which $299,577,100 was received prior to that date and $34,852,000 was made available in fiscal year 1954.

The Railroad Retirement Act of 1937 was amended by the act of October 30, 1951 (65 Stat. 683), to provide for correlation of the railroad-retirement system and the social-security system. The amendments established an arrangement whereby the social-security system in effect reinsures certain of the risks of the railroad-retirement system. Under this arrangement the railroad-retirement system will be liable to the Federal old-age and survivors insurance trust fund for the taxes that would have been paid under the social-security system,

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and the social-security system will be liable to the railroad-retirement account for the benefits which would have been payable under the Social Security Act if railroad employment had been covered thereby.

So far, the applicable taxes have exceeded the benefits and, consequently, the railroad-retirement system is indebted to the Federal old-age and survivors insurance trust fund. Under the law the Railroad Retirement Board and the Secretary of Health, Education, and Welfare were required to determine by January 1, 1954:

> * * * the amount which would place the Federal old-age and survivors insurance trust fund in the same position in which it would have been at the close of the fiscal year ending June 30, 1952, if service as an employee after December 31, 1936, had been included in the term "employment" as defined in the Social Security Act and in the Federal Insurance Contributions Act.

The amount of this liability was determined to be $488,200,000 as of June 30, 1952. This is to be reduced at the end of any year in which the benefits to be assumed by the social-security system exceed the taxes to be credited to the Federal old-age and survivors insurance trust fund for that year. The principal amount was reduced to $424,500,000 as of June 30, 1953.

Actuaries of the Railroad Retirement Board have estimated that the railroad retirement system will benefit to the extent of an average of $29,500,000 annually in perpetuity under this financial interchange arrangement.

Another provision of the 1951 amendment provides that the social-security system will assume responsibility for the payment of benefits to railroad employees who, at time of retirement or death, have less than 10 years of railroad service. While this provision will not result in transfers of funds between the system, the Board's actuaries have estimated that as a result of this arrangement the railroad retirement system will be relieved of the payment of $89,500,000 annually.

Funds of the railroad retirement account are invested by the Secretary of the Treasury. As of June 30, 1955, these investments consisted of $3,485 million in 3-percent special Treasury notes.

Railroad unemployment insurance system

The railroad unemployment insurance system was established by the Railroad Unemployment Insurance Act, approved June 25, 1938 (45 U. S. C. 351). The Railroad Unemployment Insurance Act, as extended and amended, provides for payments of unemployment, sickness, and maternity benefits to qualifying railroad workers.

The railroad unemployment insurance system receives contributions from employers up to 3 percent on each employee's earnings not in excess of $350 for any calendar month. No contributions are made by the employees.

The contribution rate is on a sliding scale, ranging from 0.5 percent to 3 percent, depending on the balance in the railroad unemployment insurance account. The rate was 3 percent prior to January 1, 1948, but has been 0.5 percent since then.

The contributions are collected directly by the Board from the employers. A portion of the contributions are deposited with the Secretary of the Treasury to the credit of the railroad unemployment insurance administration fund and the remainder is deposited with the Secretary of the Treasury to the credit of the railroad unemployment

insurance account. All moneys credited to the railroad unemployment insurance account are permanently appropriated to the Board for the payment of benefits and refunds under the act. All moneys credited to the railroad unemployment insurance administration fund are permanently appropriated to the Board for the payment of any expenses necessary or incidental to the administration of the act.

The railroad unemployment insurance account is an account maintained by the Secretary of the Treasury in the Unemployment Trust Fund established pursuant to the Social Security Act (42 U. S. C. 1104). Moneys in the Unemployment Trust Fund are invested in Treasury bonds and in Treasury special certificates of indebtedness. The balance in the railroad unemployment insurance account was $408 million on June 30, 1955.

General Accounting Office recommendations and observations relating to the railroad retirement system

Possible recovery of a substantial portion of $334,429,100 in appropriations.—In a report submitted to the Congress on February 10, 1955, the General Accounting Office recommended the recovery of a substantial portion of the $334,429,100 appropriated to the Railroad Retirement Board out of the general funds of the United States Treasury for the purpose of crediting military service as railroad employment. At that time it was stated that the Board had received in appropriated funds and accrued interest thereon approximately $324 million more than was estimated to be required to meet the related benefit payments. The 1951 amendments to the Railroad Retirement Act (65 Stat. 683) transferred from the Board to the social-security system the responsibility for paying a large portion of the benefits arising from military service without requiring any transfer of the appropriations received by the Board for the military service credits.

In a letter to the chairman of this committee, dated February 14, 1956, the Acting Chairman of the Railroad Retirement Board contended that comparisons between contributions and benefit liabilities with respect to individuals who received military-service credits are no more warranted than for any other selected group of individuals covered under the Railroad Retirement Act, since payroll taxes are related to the cost of the program as a whole and the question as to how such taxes compare with benefit liabilities for any particular group of employees is irrelevant. The Board also advised that taxes paid with respect to military service are no exception to this rule, and that there is no difference between the taxes and benefit liabilities for employees who have military service and the taxes and benefit liabilities of a similar age and service group who have no military service. Following this line of reasoning, the Board held that the actuarial valuation of the railroad retirement system considered both assets and liabilities on account of crediting military service rendered after 1936 in exactly the same fashion as for regular railroad service, and that, had the military service appropriations not been included as assets, the valuation would have shown a larger deficit than the 0.91 percent of payroll to which the General Accounting Office audit report refers elsewhere.

The Board also maintained that, since military service rendered after 1936 is properly financed exactly like regular railroad service, no comparisons between amounts appropriated and estimated liabili-

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ties can properly be made. Therefore, the size of the estimated liabilities is totally irrevelant to the question under discussion.

The Board pointed out that, when the 1951 amendments were under consideration by the congressional committees, the report of the Bureau of the Budget directed specific attention to the fact that the 10-year-service requirement would result in savings in the cost of crediting military service, and that it was readily apparent that by reason of the amendments there would likewise be substantial increases in the cost of crediting military service for railroad employees with more than 10 years of service. Corresponding savings and increases in the cost of crediting railroad service were likewise involved. After full consideration of the subject, Congress enacted the amendments without making any change in financing the crediting of either railroad service or military service notwithstanding substantial changes in the allocation of benefits.

Annual interest windfalls.—It is stated in the report that as a result of the financial interchange arrangement between the railroad retirement system and the social-security system, the Railroad Retirement Board received an interest windfall of approximately $3 million in fiscal year 1953. It was also stated that a similar windfall was received in fiscal years 1954 and 1955, and will be received in each year in which the Board continues to be indebted to the Federal old-age and survivors insurance trust fund under this arrangement.

The General Accounting Office recommended that the Railroad Retirement Board be required to pay into the general funds of the United States Treasury the interest windfall of $3 million which accrued to it in fiscal year 1953 and to make a payment for each year thereafter in which a similar windfall occurred or will occur.

It is the view of the Railroad Retirement Board that this recommendation cannot be discussed separately from (i) the financial interchange provision enacted by the 1951 amendments to the Railroad Retirement Act, (ii) the contributions which the General Accounting Office assumes are made by the social security system toward the maintenance of the railroad retirement system by reason of such financial interchange provision, (iii) the payment by the Social Security Administration of benefits on the basis of less than 10 years of railroad service, and (iv) the 3-percent interest earned by the railroad retirement account compared with the average rate (less than 3 percent) of interest earned by the OASI trust fund.

The Board further stated that the financial interchange arrangement to which the audit report refers is provided for in section 5 (k) (2), enacted by the 1951 amendments to the Railroad Retirement Act, the purpose of which is to provide additional funds to the railroad retirement system. The Railroad Retirement Board has estimated that over the long run the railroad retirement system will gain and the Congress proceeded on that assumption and stated that the actuary of the Social Security Administration testified at the hearings on the 1951 amendments and has repeated that in his belief in the long run the social-security system will gain rather than the railroad retirement system. In any event, it is the view of the Board that the congressional directive is that the social-security system shall not be worse off than it would have been if railroad service had always been covered under the social-security system; that this may result in

a gain to the railroad retirement system was freely conceded; that this necessarily requires an adjustment of funds, and the payment by the social-security system of benefits on the basis of less than 10 years of railroad service is not a contribution as the auditors seem to think, but an integral part of the adjustment; and that from the point of view of the social-security system, the net result would be the same if railroad retirement made such payments, and the OASI trust fund was charged with the amount thereof, always bearing in mind that the OASI trust fund is credited with taxes on the railroad employment of these less-than-10-year men.

In further support of this position, the Board concluded that the fact that the railroad retirement account earns 3-percent interest, as compared with the average rate (less than 3-percent) earned by the OASI trust fund, is no loss to the social-security system because if the amount determined pursuant to section 5 (k) (2) (A) were transferred, instead of retained, the interest earned on that amount by the fund would be no greater than the average rate; and that this amount should be retained in the railroad retirement account is part of the plan; that there is no loss to the OASI trust fund and no loss to the Government, since if there were no financial interchange the funds would remain in the railroad retirement account and interest at 3 percent would be earned on it; and that the reason for retaining this amount until canceled out is completely clear—it is largely to avoid the loss to the railroad retirement account of about 0.75 percent interest on this amount.

Interest rate on investments of the railroad retirement account.—The Railroad Retirement Act authorized the Secretary of the Treasury to invest funds of the Railroad Retirement Account in 3-percent special Treasury notes. Interest paid on these special notes amounted to approximately $100 million during fiscal year 1955. The average interest rate borne by all interest-bearing obligations of the United States forming part of the public debt during fiscal year 1955 was approximately 2.3 percent. The report states that if the funds of the Railroad Retirement Account had been invested at the average interest rate, which is the rate authorized for the Federal old-age and survivors insurance trust fund, the interest paid by the Treasury would have been approximately $23,500,000 less.

In commenting on this phase of the General Accounting Office report, the Board stated that, in its view, the only possible implication of the recommendations with regard to the interest "windfall" is that the auditors consider the 3 percent rate for the railroad retirement fund to be too high. It was the position of the Board that section 15 of the Railroad Retirement Act of 1937 established the railroad retirement system on an actuarial-reserve basis and provides for appropriations to the account equal to an actuarially determined annual premium; that in calculating the annual premium the Board is directed to use an interest rate of 3 percent; and that an interest yield of not less than 3 percent is guaranteed on investments.

It was the further view of the Board that the Congress was apparently guided by the long range character of railroad retirement investments and by the necessity of maintaining for that system full actuarial reserves consistent with the method of financing adopted, and that the same considerations may not be equally applicable to other trust funds,

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such as OASI or unemployment insurance, although the fact that the current return to the OASI trust fund is considered too low is brought out at page M77 of the President's 1957 budget message to Congress where he states:

> The administration is recommending legislation so that the interest paid to the Federal old-age and survivors' insurance trust fund will reflect more closely the long-term character of investments by that fund.

The Board stated that there are a number of Federal programs which earn 3 percent or more on their investments, and life-insurance companies currently earn more than 3 percent and that, in view of all this, it is difficult to sustain the opinion that the railroad retirement system is subsidized because it has a guaranty of an interest rate of not less than 3 percent.

In concluding its comments on the General Accounting Office reports, the Board stated:

> A reduction in the rate of interest on the investments of the railroad retirement account would have the immediate effect of substantially increasing the tax rate required to finance the program. The railroad industry felt secure in its belief that it could rely on the permanency of the minimum interest rate fixed by Congress. Railroad employers and their employees should not, because of an unwarranted change in Government policy toward their retirement system, be threatened with an increase in taxes or a reduction in benefits, or both.

SMALL BUSINESS ADMINISTRATION

The Small Business Administration was established pursuant to the Small Business Act of 1953 (67 Stat. 232; 15 U. S. C. 631 et seq.). The purposes of the Administration are to aid, counsel, assist, and protect the interests of small-business concerns, to insure that a fair proportion of the total Government purchases and contracts for supplies and services be placed with small-business enterprises, and to make loans to small-business concerns and to victims of floods or other catastrophes.

During the consideration of the bills providing for the creation of the Small Business Administration, the Comptroller General recommended to the Chairmen of the Senate and House Banking and Currency Committees that there be eliminated from the proposed legislation a provision which would have made the Administrator's decisions on financial transactions final and conclusive on all officers of the Government. It was pointed out that the real effect of such power was to preclude the General Accounting Office from taking action on behalf of the Government with respect to any illegal or improper transactions found in the audit. This provision was deleted, and the General Accounting Office reports that it has observed no instance during the course of its audits where the Administrator was hindered in carrying out his assigned responsibilities because of the lack of "final determination" authority.

The Comptroller General also recommended that there be deleted from the bills a section that would have required the General Accounting Office to audit the Administration's accounts, in accordance with the principles and procedures applicable to commercial transactions as provided by the Government Corporation Control Act. This provision was also deleted, after it was pointed out that the Budget and Accounting Procedures Act of 1950 provides specific statutory authority for the General Accounting Office to make the

a gain to the railroad retirement system was freely conceded; that this necessarily requires an adjustment of funds, and the payment by the social-security system of benefits on the basis of less than 10 years of railroad service is not a contribution as the auditors seem to think, but an integral part of the adjustment; and that from the point of view of the social-security system, the net result would be the same if railroad retirement made such payments, and the OASI trust fund was charged with the amount thereof, always bearing in mind that the OASI trust fund is credited with taxes on the railroad employment of these less-than-10-year men.

In further support of this position, the Board concluded that the fact that the railroad retirement account earns 3-percent interest, as compared with the average rate (less than 3-percent) earned by the OASI trust fund, is no loss to the social-security system because if the amount determined pursuant to section 5 (k) (2) (A) were transferred, instead of retained, the interest earned on that amount by the fund would be no greater than the average rate; and that this amount should be retained in the railroad retirement account is part of the plan; that there is no loss to the OASI trust fund and no loss to the Government, since if there were no financial interchange the funds would remain in the railroad retirement account and interest at 3 percent would be earned on it; and that the reason for retaining this amount until canceled out is completely clear—it is largely to avoid the loss to the railroad retirement account of about 0.75 percent interest on this amount.

Interest rate on investments of the railroad retirement account.—The Railroad Retirement Act authorized the Secretary of the Treasury to invest funds of the Railroad Retirement Account in 3-percent special Treasury notes. Interest paid on these special notes amounted to approximately $100 million during fiscal year 1955. The average interest rate borne by all interest-bearing obligations of the United States forming part of the public debt during fiscal year 1955 was approximately 2.3 percent. The report states that if the funds of the Railroad Retirement Account had been invested at the average interest rate, which is the rate authorized for the Federal old-age and survivors insurance trust fund, the interest paid by the Treasury would have been approximately $23,500,000 less.

In commenting on this phase of the General Accounting Office report, the Board stated that, in its view, the only possible implication of the recommendations with regard to the interest "windfall" is that the auditors consider the 3 percent rate for the railroad retirement fund to be too high. It was the position of the Board that section 15 of the Railroad Retirement Act of 1937 established the railroad retirement system on an actuarial-reserve basis and provides for appropriations to the account equal to an actuarially determined annual premium; that in calculating the annual premium the Board is directed to use an interest rate of 3 percent; and that an interest yield of not less than 3 percent is guaranteed on investments.

It was the further view of the Board that the Congress was apparently guided by the long range character of railroad retirement investments and by the necessity of maintaining for that system full actuarial reserves consistent with the method of financing adopted, and that the same considerations may not be equally applicable to other trust funds,

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> The administration is recommending legislation so that the interest paid to the Federal old-age and survivors' insurance trust fund will reflect more closely the long-term character of investments by that fund.

The Board stated that there are a number of Federal programs which earn 3 percent or more on their investments, and life-insurance companies currently earn more than 3 percent and that, in view of all this, it is difficult to sustain the opinion that the railroad retirement system is subsidized because it has a guaranty of an interest rate of not less than 3 percent.

In concluding its comments on the General Accounting Office reports, the Board stated:

> A reduction in the rate of interest on the investments of the railroad retirement account would have the immediate effect of substantially increasing the tax rate required to finance the program. The railroad industry felt secure in its belief that it could rely on the permanency of the minimum interest rate fixed by Congress. Railroad employers and their employees should not, because of an unwarranted change in Government policy toward their retirement system, be threatened with an increase in taxes or a reduction in benefits, or both.

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The Small Business Administration was established pursuant to the Small Business Act of 1953 (67 Stat. 232; 15 U. S. C. 631 et seq.). The purposes of the Administration are to aid, counsel, assist, and protect the interests of small-business concerns, to insure that a fair proportion of the total Government purchases and contracts for supplies and services be placed with small-business enterprises, and to make loans to small-business concerns and to victims of floods or other catastrophes.

During the consideration of the bills providing for the creation of the Small Business Administration, the Comptroller General recommended to the Chairmen of the Senate and House Banking and Currency Committees that there be eliminated from the proposed legislation a provision which would have made the Administrator's decisions on financial transactions final and conclusive on all officers of the Government. It was pointed out that the real effect of such power was to preclude the General Accounting Office from taking action on behalf of the Government with respect to any illegal or improper transactions found in the audit. This provision was deleted, and the General Accounting Office reports that it has observed no instance during the course of its audits where the Administrator was hindered in carrying out his assigned responsibilities because of the lack of "final determination" authority.

The Comptroller General also recommended that there be deleted from the bills a section that would have required the General Accounting Office to audit the Administration's accounts, in accordance with the principles and procedures applicable to commercial transactions as provided by the Government Corporation Control Act. This provision was also deleted, after it was pointed out that the Budget and Accounting Procedures Act of 1950 provides specific statutory authority for the General Accounting Office to make the

type of audit most suited to the activities of the agency involved and in accordance with generally accepted principles of auditing.

UNITED STATES INFORMATION AGENCY

The United States Information Agency (USIA) was estabished as an independent agency, effective August 1, 1953, by Reorganization Plan No. 8 of 1953, pursuant to the provisions of the Reorganization Act of 1949. The Agency was established to conduct international information programs which previously had been administered by the Department of State and the Mutual Security Agency.

The establishment of USIA as a new agency resulted in transfers of personnel, records, property, and funds from predecessor agencies, a new organizational structure, and appointments of new personnel in key positions to conduct the transferred functions. Significant segments of operations formerly carried on in New York were moved to Washington, and rearrangements of office space were made in Washington.

General Accounting Office audits

For several years prior to the establishment of USIA, the General Accounting Office had conducted audits of payroll records for domestic employees of the Department of State at the Department's offices and sites where the records were kept. Site audit procedures were extended to all operations of the Department, as of the beginning of the fiscal year 1952. Arrangements relating to the audit of USIA provided for a continuation of those in effect with the International Information Administration, Department of State, whose functions were transferred to USIA as of August 1, 1953. USIA was informed that the audit would be made at the locations where the files and records were maintained and where the transactions originated.

A more comprehensive audit of the Agency's financial activities for the fiscal years 1954 and 1955 has been undertaken by the General Accounting Office. The audit work includes tests of payroll records, and tests of monthly statements of cash receipts and disbursements, supporting vouchers, and related documents received in Washington for cash transactions at some 200 posts in foreign countries. Certain of the Agency's procurement and contracting practices, and property records and controls are also under examination.

Tests of payrolls for the fiscal year 1954 revealed that administrative controls had not been established effectively to assure the proper computation of salary payments in accordance with applicable laws and prescribed civil-service regulations and the accuracy of records of the number of hours of annual and sick leave remaining credited to employees. Instances of salary overpayments and errors in leave records were pointed out and methods of improving controls were suggested. Agency officials took immediate action to effect corrections and study methods of improving controls.

The USIA was also informed of deficiencies found by the General Accounting Office in its review of the Agency's report on the status of appropriations and funds, submitted pursuant to section 1311 of the Supplemental Appropriation Act, 1955, and has taken steps to improve its accounting practices with respect to the obligation and expenditure of appropriations.

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Internal auditing and inspection

In January 1954 the Director of USIA delegated responsibility for internal auditing of all financial records, accounts, and documents of the Agency and the audit of contractors' accounts, records, and documents to the Chief of the Finance Division. A Chief Auditor was assigned in May 1954 and an audit staff of some nine members has been assembled. Thus far the audit staff has been engaged mostly in making audits of contractors' records. Internal auditors also examined the inventory of equipment, materials, and supplies stored at the Agency's warehouse in Brooklyn, N. Y., and plans are underway to obtain internal audit coverage of some of the USIA posts in foreign countries and to make reviews of allotment accounting records in the Washington offices of the Agency.

The Agency has established a staff of four inspectors to make management inspections at the various foreign and domestic locations where program operations are conducted. Tours of inspection of foreign posts were begun in 1955.

VETERANS' ADMINISTRATION

The Veterans' Administration is an independent agency in the executive branch of the Government. It was created by Executive order under the act of July 3, 1930 (46 Stat. 1016; 38 U. S. C. 11), which authorized the President to consolidate and coordinate under a single control all Federal agencies dealing with veterans' benefits. The Administration is headed by the Administrator of Veterans' Affairs who is directly responsible to the President, and is organized on a staff and line basis to administer the benefits provided for veterans of the Armed Forces who served either in times of war or in times of peace.

The Department of Veterans' Benefits provides financial assistance to veterans and dependents of deceased veterans to compensate them because of service in the Armed Forces and to veterans to aid them in becoming rehabilitated and readjusted to their normal civilian pursuits. The benefits provided under the compensation and pension, vocational rehabilitation and education, and other programs are estimated to amount to about $3.5 billion for fiscal year 1956. The Department of Medicine and Surgery provides medical care and treatment of veterans. The estimated cost of these benefits for 1956 is about $700 million. The Insurance Department operates the veterans' insurance program under which insurance protection is afforded to about 6.6 million policyholders. The benefits are provided to veterans and their dependents through operations conducted in 172 hospitals, 17 domiciliaries, 67 regional offices, 4 insurance offices, and 308 other field stations.

General Accounting Office audits

Up to 1950 the General Accounting Office audit of the Veterans' Administration consisted of (1) an examination of documents on a centralized audit basis in Washington to determine that expenditures were being approved for payment in accordance with applicable laws and regulations, (2) annual commercial type audits of the Veterans Canteen Service, and (3) audits of civilian pay on a site basis. The centralized audit of disbursements was supplemented in certain instances by site audits of cost contracts and of institutions providing

education and training to veterans under the Servicemen's Readjustment Act of 1944.

On December 13, 1949, the Comptroller General authorized a comprehensive audit of the veterans' insurance program operations in order to increase the efficiency and effectiveness of the audit work, to keep paperwork to a minimum, and to effectively discharge his responsibilities which go beyond determining the legality of payments made and the settlement of accountable officers' accounts. The audit work initially undertaken was a review of the 1948 special dividend paid to national service life insurance policyholders. This work was later expanded to encompass the 1951 special dividend and reviews of operations at all insurance offices.

The General Accounting Office extended its site audit work to include a review of other programs administered by the Administration. The audit now comprises two principal phases of work undertaken at selected VA field stations; a review of programs and other activities, and an examination of financial transactions. Program operations are being reviewed on a comprehensive basis to determine whether they are being effectively and efficiently administered. The examination of financial transactions includes an examination of receipts and disbursements to determine compliance with applicable laws and regulations and the effectiveness of the internal control procedures to prevent illegal or erroneous payments, a review of limitations and limitation controls, and a review of obligations. The General Accounting Office has reviewed the operations in the Administration's Washington offices pertaining to the compensation and pension, the vocational rehabilitation and education, and the loan guaranty programs.

Review of insurance operations

In its report on Review of Insurance Operations of the Veterans' Administration, submitted to the Congress on September 9, 1955, the General Accounting Office recommended that a fully integrated accounting system on an accrual basis be installed to attain full disclosure of financial information and effective control over funds, assets, liabilities, and the billing and collection of insurance premiums and interest income; that the accounting work be further decentralized; that modern accounting techniques be employed; that trust fund financial statements disclose contingency reserves and surpluses not specifically set aside for the payment of dividends; and that the statements also disclose results of operations and changes in equity or surplus of the funds. Many changes in methods and procedures have been initiated by the Administration to overcome the reported deficiencies. Those changes are set forth in the comments of the Administrator of Veterans' Affairs included as an appendix to the report. The Comptroller General, in submitting the report to the Congress, stated that some of the new methods and procedures cited in the Administrator's comments are not fully installed and in operation in all offices and that others have been installed in a single office on a test basis for the purpose of developing the best methods of operation. He also stated that the action being taken indicates a movement by the Administration toward attaining a better controlled and more efficient operation.

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The report pointed out that in some instances funds furnished by the Government to pay Government-assumed insurance losses had been improperly retained in the trust funds. This occurred where a beneficiary of a gratuitous award had died or had become ineligible to receive further payments and there was no eligible beneficiary to receive the payments, where the beneficiary of an extra-hazard award had died before receiving the guaranteed installments and no other eligible beneficiary remained to receive the remainder of the award, or where awards of these types had been canceled. The improper retention of Government funds was brought to the attention of the Administration in May 1953. As a result, about $4 million was restored to the Government appropriation account from the trust fund. Also, procedures were adopted to assure that the Government will recover all that it should in such cases, with interest on the amount recovered.

The report pointed out that section 608 of the National Service Life Insurance Act of 1940 vested authority in the Administrator to make final and conclusive decisions on all questions of law or fact, and recommended that Congress give consideration to making all insurance operations subject to the normal checks and balances provided for in the Budget and Accounting Acts of 1921 and 1950.

In 1949 the Administrator of Veterans' Affairs determined to pay national service life insurance dividends to aviation cadets even though the premiums had been paid by the Government. This determination was questioned by the Comptroller General before the dividends were paid. The Administrator informed the Comptroller General that his determination was made pursuant to section 608 of the National Service Life Insurance Act and, consequently, was not subject to review. The Comptroller General then reported to the Congress that because of the conclusive authority vested in the Administrator by section 608 he was unable to prevent the payment of the dividends to the aviation cadets. As a result, this particular class of servicemen was not only provided with gratuitous insurance, as authorized by the Congress, but was also given a bonus of about $20 million.

The report pointed out another decision of the Administrator that the Comptroller General stated was of doubtful propriety. This was the ruling that insurance dividends are "benefits payable" within the meaning of section 5 of Public Law 866, 76th Congress (38 U. S. C. 454a), and thus not subject to application in payment of indebtedness of insureds to the Government. This precluded the collection by set-off of veterans' indebtedness of millions of dollars that had resulted from overpayments of allotments and allowances from military appropriations.

The General Accounting Office stated that its examination also disclosed that determinations of dependency of parents of deceased World War II veterans receiving compensation payments had not been made since the awards were granted, and that at the suggestion of the Comptroller General the Administration undertook a review of the dependency status of parents of living veterans as well as parents of deceased veterans. The Administration's review resulted in terminating compensation payments to 13,900 parents of deceased veterans and

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discontinuing additional compensation allowances to veterans for 4,575 parents because they were found to be no longer dependent. It is estimated that annual payments were thereby reduced about $8.5 million. The Administration also adopted a policy providing for periodic reviews to determine the continued dependency of parents.

Review of vocational rehabilitation and education program

The General Accounting Office issued a report to the Administrator of Veterans' Affairs on June 30, 1955, on its review of the vocational rehabilitation and education program operations in the Administration's Washington office pertaining to benefits made available by Public Law 550, 82d Congress, to veterans of the Korean conflict. This report disclosed a rather high incidence of clerical error. The errors were not of a systematic nature, however, and did not indicate a significant weakness in the administration of the program.

The ease of administering the benefit program authorized by Public Law 550 is due primarily to the action of the Congress in enacting a law that provides for direct payment of education and training allowances to the veterans and which obviates a determination of the amount of tuition and other fees to be paid by the Government to the institutions providing the education or training to the veterans, as was required under the GI bill providing education and training benefits to World War II veterans. The change in legislation was due in no small part to a nationwide survey conducted by the General Accounting Office which pointed out the difficulties encountered in administering the education and training benefits provided under the GI bill and the attendant undesirable practices, abuses, irregularities, and excessive costs that were incurred. Public Law 550 also provides for an audit by the General Accounting Office. The General Accounting Office has cooperated closely with the Administration in determining that its regulations are consistent with the law and provide for a proper implementation of the program.

APPENDIX

Audit reports submitted by the Comptroller General to the Congress of the United States or to committees of the Congress

[Printed and unprinted]

Corporation or agency	H. Doc. No. or reference	Congress or date
Department of Agriculture:		
Agricultural Conservation Program Service: 1953	B-114882	June 22, 1955.
Agricultural marketing revolving fund: 1948-51	B-58305	Sept. 5, 1952.
(1952, et seq.—See independent agencies, Farm Credit Administration corporations.)		
Agricultural Marketing Service: National school lunch program: 1953	B-114866	Mar. 4, 1955.
Commodity Credit Corporation:		
1945	148	81st.
1946-47:		
Vol. I	615	81st.
Vol. II	632	81st.
1948-49	674	81st.
1950	177	82d.
1951	403	82d.
1952:		
Pt. I	141	83d.
Pt. II	473	83d.
1953:		
Pt. I	494	83d.
Pt. II	129	84th.
1954	279	84th.
Contract to sell Austrian winter peas	B-115616	June 16, 1953.
Commodity Stabilization Service: Sugar Act program, 1953	B-114856	Dec. 10, 1954.

Audit reports submitted by the Comptroller General to the Congress of the United States or to committees of the Congress—Continued

Corporation or agency	H. Doc. No. or reference	Congress or date
Department of Agriculture—Continued		
Farmers' Home Administration:		
1951	B–58330	Oct. 20, 1952.
1952–53	B–114873	Apr. 28, 1955.
1954	B–114873	Jan. 10, 1956.
Federal Crop Insurance Corporation:		
1945	182	80th.
1946–48	328	81st.
1949	483	81st.
1950	45	82d.
1951	346	82d.
1952	101	83d.
1953	390	83d.
1954	180	84th.
Federal Surplus Commodities Corporation:		
1945	42	80th.
July 1, 1945, to Mar. 14, 1947 (dissolved Mar. 14, 1947)	205	80th.
Rural Electrification Administration:		
1951–52	B–114838	July 22, 1954.
1953–54	B–114838	July 26, 1955.
Soil Conservation Service:		
1951–52	B–114833	June 14, 1954.
1953–54	B–114833	July 18, 1955.
War Hemp Industries, Inc.:		
Feb. 1, 1943, to June 30, 1945	148	81st.
1946–47 (included in report on audit of Commodity Credit Corporation) (dissolved Mar. 1, 1947).	615	81st.
Department of Commerce:		
Civil Aeronautics Administration:		
Washington National Airport:		
1949–52, Revenue from concession contracts	B–114805	July 29, 1953.
1953–54	B–114805	Nov. 21, 1955.
Federal Maritime Board and Maritime Administration (see also independent agencies, United States Maritime Commission):		
1950	93	82d.
1951	472	82d.
1952–53	383	83d.
Inland Waterways Corporation: Including Warrior River Terminal Company from July 1, 1944, to June 21, 1948, the date of its dissolution:		
1945	234	80th.
1946	414	80th.
1947	248	81st.
1948	423	81st.
1949	472	81st.
1950	98	82d.
1951	349	82d.
1952	131	83d.
1953	502	83d.
1954	269	84th.
1955	290	84th.
National Bureau of Standards:		
1951–52	B–114821	May 10, 1954.
1953	B–114821	Dec. 31, 1954.
1954	B–114821	Nov. 1, 1955.
Department of Defense:		
Aircraft and related procurement obligations and obligating procedures of the Department of Defense, June 1953.	B–114819	Mar. 5, 1954.
Examination of obligations of mutual security appropriations at June 30, 1953, deobligated during 6 months ended Dec. 31, 1953 as reported by the Department of Defense.	B–112143 B–114819	June 25, 1954.
Report of survey and review of actions of the Army, Navy, and Air Force Contract Adjustment Boards, March 1955.	B–114872	Mar. 18, 1955.
Department of the Army:		
Picatinny Arsenal, Dover, N. J.: 1952–53	B–114855	Nov. 19, 1954.
Manufacturing Division, Quartermaster Depot, Philadelphia, Pa.: 1952–53–54.	B–114881	June 15, 1955.
Natural fibers revolving fund: 1949–50	B–103808	May 31, 1951.
United States Spruce Production Corporation:		
1945	750	79th.
July 1, 1945, to Dec. 12, 1946 (dissolved Dec. 12, 1946)	235	80th.
Department of the Navy:		
Marine Corps Clothing and Equipment Factory, Philadelphia, Pa.: 1954.	B–114884	June 13, 1955.
Military Sea Transportation Service:		
Atlantic Area Command: 1952–53	B–114840	Apr. 22, 1955.
Pacific Area Command: 1952–53	B–114840	July 1, 1955.
Naval Ordnance Laboratory, Corona, Calif., Sept. 27, 1953, to June 30, 1955.	B–125002	Jan. 3, 1956.
Naval Ordnance Plant, York, Pa., Aug. 1, 1951, to Jan. 31, 1955	B–125000	Jan. 3, 1956.

***Audit reports submitted by the Comptroller General to the Congress of the United States or to committees of the Congress*—Continued**

Corporation or agency	H. Doc. No. or reference	Congress or date
Department of Defense—Continued		
Department of the Navy—Continued		
Naval Shipyards:		
Charleston Naval Shipyard, Charleston, S. C.: July 1, 1953, to Oct. 31, 1954.	B-114890	Aug. 23, 1955.
Norfolk Naval Shipyard, Portsmouth, Va.: July 1, 1953, to Nov. 30, 1954.	B-114883	May 23, 1955.
Overpayments to military personnel of the Navy	B-114889	Aug. 11, 1955.
Survey of operations of Military Sea Transportation Service in relation to the commercial shipping industry (interim report), July 1954.	B-114840	July 19, 1954.
Department of the Interior:		
Bureau of Indian Affairs: 1952-53	B-114868	Mar. 9, 1955.
Bureau of Land Management:		
1952	B-48120	Apr. 15, 1953.
1953	B-114815	Feb. 3, 1954.
1954	B-114815	May 19, 1955.
Bureau of Mines and Defense Minerals Exploration Administration:		
1952	B-114812	Oct. 29, 1953.
1953	B-114812	June 8, 1954.
1954	B-114812	May 31, 1955.
Bureau of Reclamation:		
1952-53 (pts. I and II)	B-114885	July 6, 1955.
1954	B-114885	Oct. 18, 1955.
Defense Minerals Exploration Administration. (*See* Department of the Interior, Bureau of Mines.)		
Fish and Wildlife Service:		
1953	B-114841	July 15, 1954.
1954	B-114841	June 29, 1955.
Bonneville Power Administration: 1954	B-114858	July 11, 1955.
Southeastern Power Administration:		
1953	B-114813	Nov. 18, 1953.
1954	B-114813	Feb. 24, 1955.
Southwestern Power Administration:		
1952	B-114804	July 17, 1953.
1953	B-114804	Jan. 13, 1954.
1954	B-114804	Dec. 31, 1954.
Territorial activities:		
Alaska Railroad:		
Survey and review of operations:		
1951	415	82d.
1952	95	83d.
Audit report: 1953-54	B-114886	July 26, 1955.
Alaska Road Commission:		
Survey and review of operations, 1952	B-58334	Apr. 6, 1953.
Audit report, 1953	B-114844	Aug. 13, 1954.
Audit report, 1954	B-114844	Mar. 9, 1955.
Government of American Samoa: 1953	B-114870	Apr. 12, 1955.
Government of the Virgin Islands:		
1952	B-114808	Nov. 10, 1953.
1953	B-114808	Oct. 8, 1954.
1954	B-114808	July 29, 1955.
Island Trading Company of Micronesia:		
Survey and review of operations	B-89446	June 13, 1952.
1954	B-114879	May 10, 1955.
Puerto Rico Reconstruction Administration:		
1952	B-114803	June 26, 1953.
1953	B-114843	Aug. 13, 1954.
1954-55	B-114843	Oct. 31, 1955.
Trust Territory of the Pacific Islands: 1953-54	B-114888	Aug. 23, 1955.
Review of cost-of-living allowances and post differentials, Puerto Rico and the Virgin Islands, 1954.	B-114887	July 12, 1955.
The Virgin Islands Company:		
1945	701	79th.
1946	441	80th.
1947	774	80th.
1948	170	81st.
1949 (dissolved and succeeded by Virgin Islands Corporation, June 30, 1949).	599	81st.
Virgin Islands Corporation:		
1950	34	82d.
1951	338	82d.
1952	105	83d.
1953	368	83d.
1954	130	84th.
1955	283	84th.

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***Audit reports submitted by the Comptroller General to the Congress of the United States or to committees of the Congress*—Continued**

Corporation or agency	H. Doc. No. or reference	Congress or date
Department of Justice:		
Federal Prison Industries, Inc.:		
1945	567	79th.
1946	292	80th.
1947	81	81st.
1948	424	81st.
1949	602	81st.
1950	41	82d.
1951	345	82d.
1952	96	83d.
1953	373	83d.
1954	217	84th.
Post Office Department:		
Postal Savings System:		
Survey	393	82d.
1952–53	50	84th.
1954	282	84th.
Report on progress under the Post Office Department Financial Control Act of 1950 and recommendations for improvement in financial management:		
Apr. 24, 1953 (H. Rept. 367, 83d Cong.)	B–87179	Apr. 24, 1953.
Apr. 25, 1953, to Feb. 28, 1955 (H. Rept. 435, 84th Cong.)	B–114874	Mar. 30, 1955.
Review of leave practices in post offices, March 1955 (H. Rept. 434, 84th Cong.).	B–114874	Mar. 25, 1955
Department of State:		
International Cooperation Administration:		
Institute of Inter-American Affairs, including the following corporations from July 1, 1944, to the dates of their dissolution: Inter-American Educational Foundation, Inc., Institute of Inter-American Transportation, Inter-American Navigation Corporation, Prencinradio, Inc.:		
1945–46	747	80th.
1947	165	81st.
1948–49	631	81st.
1950	105	82d.
1951	491	82d.
1952	172	83d.
1953	399	83d.
1954	278	84th.
United States assistance program for Pakistan	B–114896	Dec. 27, 1955.
Department of the Treasury:		
Bureau of Customs:		
Importation of wheat classified as unfit for human consumption	B–58331	Nov. 19, 1952.
Audit of Bureau, Jan. 1, 1952, to June 30, 1954	B–114898	Dec. 28, 1955.
Bureau of Engraving and Printing:		
1951–52	B–114801	June 19, 1953.
1953	B–114801	July 1, 1954.
1954	B–114801	Dec. 31, 1954.
Bureau of Narcotics:		
Mar. 1, 1951, to June 30, 1952	B–114809	Sept. 29, 1953.
1953	B–114809	June 11, 1954.
1954	B–114809	Mar. 3, 1955.
Office of the Treasurer of the United States:		
June 21, 1949, to June 30, 1951	B–114802	June 8, 1953.
1952–53	B–114802	June 14, 1954.
1954	B–114802	July 6, 1955.
U. S. Coast Guard:		
1952	B–114851	Nov. 12, 1954.
1953	B–114851	Oct. 31, 1955.
Report on certain aspects of Treasury Department operations relating to public debt borrowings and the handling of public funds:		
March 1954	B–114802	Mar. 24, 1954.
February 1955	B–114802	Feb. 28, 1955.
Independent agencies:		
Atomic Energy Commission:		
Examination of cash receipts of the Atomic Energy Commission and its cost-type contractors.	B–114878	June 2, 1955.
Review of contracting and procurement policies and procedures (interim report).	B–76020	Jan. 23, 1953.
Review of contracting and procurement policies and practices	B–76020	Dec. 1, 1953.
Review of subcontracting activities of a prime contractor of the Atomic Energy Commission.	B–114892	Sept. 2, 1955.
Review of Atomic Energy Commission contracts for electric power—Pt. I, Ebasco Services, Inc.	B–114878	Mar. 31, 1955.
Defense Homes Corporation:		
1945–46	375	80th.
1947	746	80th.
1948 (dissolved Feb. 4, 1949; transferred June 30, 1948, to RFC for liquidation).	41	81st.

***Audit reports submitted by the Comptroller General to the Congress of the United States or to committees of the Congress*—Continued**

Corporation or agency	H. Doc. No. or reference	Congress or date
Independent agencies—Continued		
Defense Plant Corporation:		
1945 (dissolved July 1, 1945; functions transferred to RFC)	474	80th.
Defense Supplies Corporation:		
1945 (dissolved July 1, 1945; functions transferred to RFC)	439	80th.
Disaster Loan Corporation:		
1945 (dissolved July 1, 1945; functions transferred to RFC)	623	80th.
Economic Stabilization Agency: Office of Price Stabilization: Review of certain activities—Jan. 24, 1951, to Apr. 30, 1953 (terminated Apr. 30, 1953 by Executive Order 10434, Feb. 6, 1953).	B-114847	Aug. 27, 1954.
Export-Import Bank of Washington:		
1945	248	80th.
1946	249	80th.
1947	641	80th.
1948	139	81st.
1949	548	81st.
1950	725	81st.
1951	305	82d.
1952	125	83d.
1953	372	83d.
1954	116	84th.
1955	314	84th.
Farm Credit Administration:		
Administrative office:		
1951	B-58305	Sept. 2, 1952.
1952	B-114806	July 30, 1953.
1953 et seq.—*See* Farm Credit Administration corporations supervised.		
Corporations supervised:		
Federal intermediate credit banks; production credit corporation; banks for cooperatives, including Central Bank for Cooperatives; Federal Farm Mortgage Corporation; Federal land banks (audited until withdrawal of Government's capital; repayment completed in June 1947); Regional Agricultural Credit Corporation of Washington, D. C. (dissolved Apr. 16, 1949):		
1945	417	80th.
1946	598	80th.
1947	443	81st.
1948	574	81st.
1949	603	81st.
1950	113	82d.
1951	399	82d.
1952	165	83d
1953	472	83d.
1954	270	84th.
Federal Deposit Insurance Corporation:		
1945	639	79th.
1946	514	80th.
1947	175	81st.
1948	280	81st.
1949	634	81st.
1950	122	82d.
1951	433	82d.
1952	109	83d.
1953	402	83d.
1954	212	84th.
1955	B-114831	Dec. 15, 1955.
Federal Home Loan Bank Administration:		
1945-46	706	80th.
1947	209	81st.
1948 et seq.—*See* Federal Home Loan Bank Board.		
Federal Home Loan Bank Board:		
1948	343	81st.
1949	578	81st.
1950	169	82d.
1951	317	82d.
1952	52	83d.
1953	371	83d.
1954	321	84th.
Federal home-loan banks:		
1945-46	706	80th.
1947	209	81st.
1948	343	81st.
1949	578	81st.
1950	169	82d.
1951	317	82d.
1952	52	83d.
1953	371	83d.
1954	277	84th.

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Audit reports submitted by the Comptroller General to the Congress of the United States or to committees of the Congress—Continued

Corporation or agency	H. Doc. No. or reference	Congress or date
Independent agencies—Continued		
Federal Savings and Loan Insurance Corporation:		
1945–46	660	80th.
1947	153	81st.
1948	251	81st.
1949	467	81st.
1950	169	82d.
1951	317	82d.
1952	52	83d.
1953	371	83d.
1954	276	84th.
Federal Public Housing Authority:		
1945–46—Survey of the accounting system	229	80th.
1946—Report on audit	342	81st.
1947 et seq. (*See* Housing and Home Finance Agency, Public Housing Administration.)		
Foreign Economic Administration:		
Cargoes, Inc.:		
Jan. 1, 1944, to Mar. 31, 1945 (dissolved Apr. 30, 1945)	43	80th.
Foreign Operations Administration:		
Examination of obligations of mutual security appropriations at June 30, 1953, deobligated during 6 months ended Dec. 31, 1953, as reported by Foreign Operations Administration.	B–112143 B–114819	June 25, 1954.
Operation Reindeer, April 1954	B–119445	June 11, 1954.
Study of obligating bases and related administrative practices	B–114845	June 10, 1955.
General Services Administration: General supply fund: 1950–53	B–114807	June 20, 1955.
Housing and Home Finance Agency:		
Office of the Administrator:		
1951	B–58329	Oct. 14, 1952.
1952–53	B–114875	Apr. 4, 1955.
Federal Housing Administration:		
1949	621	81st.
1950	73	82d.
1951	366	82d.
1952	97	83d.
1953	53	84th.
Federal National Mortgage Association:		
1945	450	80th.
1946–47	468	81st.
1948–49	638	81st.
1950	125	82d.
1951	323	82d.
1952	98	83d.
1953	379	83d.
1954	109	84th.
Home Owners' Loan Corporation:		
1945	183	80th.
1946	184	80th.
1947	694	80th.
1948	244	81st.
1949	446	81st.
1950	169	82d.
1951	317	82d.
1952 (Dissolved Feb. 3, 1954)	52	83d.
Public Housing Administration:		
1947–48	541	81st.
1949	637	81st.
1950	128	82d.
1951	339	82d.
1952	103	83d.
1953	58	84th.
Metals Reserve Company: 1945 (dissolved July 1, 1945; functions transferred to RFC).	755	80th.
National Advisory Committee for Aeronautics:		
Survey and review of operations	B–24641	Feb. 20, 1953.
1953	B–114852	Oct. 12, 1954.
1954	B–114852	Dec. 5, 1955.
National Capital Housing Authority:		
1947–48	267	81st.
1949	542	81st.
1950	132	82d.
1951	457	82d.
1952	134	83d.
1953	52	84th.
Panama Canal:		
Examination of collection accounts and reports:		
1950	B–58326	Oct. 17, 1951.
1951	B–58326	Nov. 21, 1952.
Survey of duplication of Government activities and related facilities.	B–58317	Sept. 29, 1953.
Survey and review of operations of the Health Bureau	B–58317	Mar. 20, 1953.

***Audit reports submitted by the Comptroller General to the Congress of the United States or to committees of the Congress*—Continued**

Corporation or agency	H. Doc. No. or reference	Congress or date
Independent agencies—Continued		
Panama Canal Company: Sale of suction dredge *Las Cruces*	B-99032	June 10, 1952.
Panama Canal Company and Canal Zone Government:		
1952	207	83d.
1953	473	83d.
1954	160	84th.
Panama Railroad Company:		
1945–46	570	80th.
1947	121	81st.
1948	432	81st.
1949	594	81st.
1950	44	82d.
1951	336	82d.
1952 et seq.—*See* Panama Canal Company and Canal Zone Government.		
Petroleum Reserves Corporation: 1945 (name changed to War Assets Corporation, Nov. 9, 1945).	622	80th.
Railroad Retirement Board:		
1952	B-114817	Mar. 10, 1954.
1953	B-114817	Feb. 10, 1955.
Reconstruction Finance Corporation:		
Interim report dated June 17, 1946	674	79th.
1945	316	80th.
1946–47	468	81st.
1948–49	638	81st.
1950	125	82d.
1951	367	82d.
1952	104	83d.
1953	384	83d.
1954	143	84th.
The RFC Mortgage Company:		
1945	450	80th.
1946–47 (included in report on audit of Reconstruction Finance Corporation.) (Dissolved April 8, 1948.)	468	81st.
Rubber Development Corporation:		
1945	444	80th.
1946–47 (included in report on audit of Reconstruction Finance Corporation.) (Dissolved June 30, 1947.)	468	81st.
Rubber Reserve Company: 1945 (dissolved July 1, 1945; functions transferred to RFC).	444	80th.
Small Defense Plants Administration: July 31, 1951, through July 31, 1953 (terminated July 31, 1953; functions relating to liquidation transferred to Small Business Administration).	B-114846	Aug. 18, 1954.
Smaller War Plants Corporation:		
1945	549	80th.
1946–47 (included in report on audit of Reconstruction Finance Corporation). (Abolished by act of June 30, 1947, 61 Stat. 209.)	468	81st.
Tennessee Valley Associated Cooperatives, Inc.:		
1945	673	79th.
1946	259	80th.
July 1, 1946, to July 30, 1947	515	80th.
July 1, 1947, to Dec. 31, 1948. (Dissolved Jan. 18, 1950.)	234	81st.
Tennessee Valley Authority:		
1945	172	80th.
1946–47	748	80th.
1948	203	81st.
1949	442	81st.
1950	33	82d.
1951	306	82d.
1952	77	83d.
1953	506	83d.
1954	275	84th.
U. S. Commercial Company:		
1945	713	80th.
1946–47 (included in report on audit of Reconstruction Finance Corporation). (In liquidation since June 30, 1948.)	468	81st.
U. S. Housing Corporation: 1945 (dissolved Sept. 8, 1952)	178	80th.
U. S. Maritime Commission:		
1946–47	585	80th.
Special report of July 11, 1949	465	81st.
1948–49	465	81st.
1950 (included in report on audit of Federal Maritime Board and Maritime Administration).	93	82d.
Veterans' Administration: Report on insurance operations: January 1954.	B-114859	Sept. 9, 1955.

Audit reports submitted by the Comptroller General to the Congress of the United States or to committees of the Congress—Continued

Corporation or agency	H. Doc. No. or reference	Congress or date
Independent agencies—Continued		
Veterans Canteen Service:		
Aug. 7, 1946, to June 30, 1947	245	81st.
1948	378	81st.
1949	565	81st.
1950	117	82d.
1951	414	82d.
1952	191	83d.
1953	342	83d.
1954	115	84th.
War Assets Corporation: Nov. 9, 1945, to Mar. 25, 1946 (included in report on Audit of Reconstruction Finance Corporation) (dissolved June 30, 1946; functions transferred to War Assets Administration).	466	81st.
War Damage Corporation:		
1945	605	80th.
1946–47 (included in report on audit of Reconstruction Finance Corporation, in liquidation since Jan. 22, 1947).	468	81st.
Other reports:		
Examination of the accounts and records of the White County Bridge Commission, Carmi, Ill.: Jan. 1, 1950, to June 30, 1955	B–124260	Sept. 29, 1955.
Gorgas Memorial Institute of Tropical and Preventive Medicine, Inc.:		
1946	110	80th.
1947	634	80th.
1948	427	81st.
1949	494	81st.
1950	10	82d.
1951	278	82d.
1952	10	83d.
1953	258	83d.
1954	10	84th.
1955	287	84th
Government Services, Inc.:		
1945	B–58756	Nov. 10, 1947.
1946	B–58756	Aug. 10, 1948.
1947	B–58756	June 29, 1949.
1948	B–58756	May 18, 1950.
1949	B–58756	July 18, 1950.
1950	B–58756	Mar. 30, 1951.
1951	B–58756	Mar. 17, 1952.
1952	B–58756	Apr. 20, 1953.
1953	B–114820	Apr. 12, 1954.
1954	B–114820	Apr. 19, 1955.
Report to House Committee on Appropriations of significant findings developed by the General Accounting Office during the course of audits and other examinations.	B–106190	Dec. 9, 1954.
Do	B–106190	Dec. 9, 1955.
Report on study of U. S. Government Wind Tunnels, April 1954	B–114825	Apr. 9, 1954.
Review of agency reports, submitted pursuant to sec. 1311 of the Supplemental Appropriation Act, 1955, pertaining to:		
Department of Agriculture	B–114876	May 19, 1955.
Department of Commerce	B–114876	Apr. 11, 1955.
Department of Defense	B–114876	Sept. 26, 1955.
Department of Justice	B–114876	Apr. 15, 1955.
Post Office Department	B–114876	June 16, 1955.
Department of State	B–114876	Apr. 22, 1955.
Funds appropriated to the President	B–114876	May 13, 1955.
Foreign Operations Administration	B–114876	June 10, 1955.
General Services Administration	B–114876	Apr. 11, 1955.
Government Printing Office	B–114876	Apr. 11, 1955.
Small Business Administration	B–114876	May 19, 1955.
United States Information Agency	B–114876	June 20, 1955.
Veterans' Administration	B–114876	May 20, 1955.

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